



2000 Annual Report

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The Great Atlantic & Pacific Tea Company, Inc.

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The Great Atlantic & Pacific Tea Company, Inc.
Comparative Highlights

(Dollars in thousands, except per share amounts, financial ratios and store data)

	52 Weeks Ended		
	<u>February 24, 2001</u>	<u>February 26, 2000</u>	<u>February 27, 1999</u>
Sales	\$ 10,622,866	\$ 10,151,334	\$ 10,179,358
Income (loss) from operations	50,193	104,830	(164,391)
Net (loss) income	(25,068)	14,160	(67,164)
Net (loss) income per share – basic and diluted	(0.65)	0.37	(1.75)
Cash dividends per share	0.30	0.40	0.40
Expenditures for property	415,842	479,572	438,345
Depreciation and amortization	255,771	232,712	233,663
Working capital	94,370	98,305	109,047
Stockholders' equity	797,297	846,192	837,257
Debt to total capitalization	57%	54%	51%
Book value per share	20.79	22.07	21.87
New store openings	47	54	46
Number of stores at year end	752	750	839
Number of franchised stores served at year end	68	65	55

NOTE: Reference should be made to the "Management's Discussion and Analysis" section contained herein for details of non-recurring charges recorded in each of the fiscal years.

Company Profile

The Great Atlantic & Pacific Tea Company, Inc. ("the Company"), based in Montvale, New Jersey, operates combination food and drug stores, conventional supermarkets and limited assortment food stores in 16 U.S. states, the District of Columbia and Ontario, Canada, under the A&P, Waldbaum's, Super Foodmart, Food Emporium, Super Fresh, Farmer Jack, Kohl's, Sav-A-Center, Dominion, Ultra Food & Drug, Food Basics and The Barn Markets trade names. As of the fiscal year ended February 24, 2001, the Company operated 752 stores and served 68 franchised stores. Through its Compass Foods Division, the Company also manufactures and distributes a line of whole bean coffees under the Eight O'Clock, Bokar and Royale labels, both for sale through its own stores as well as other food and convenience retailers.

CEO Letter to Stockholders

To Our Stockholders:

Fiscal 2000 was a challenging year for A&P, as a combination of factors affected our Company's progress.

With reduced consumer spending increasing competitive activity, the resulting pressure on margins began early in the year, and continued throughout. The underperformance of many of our newer stores, and the initial impact of organizational changes on field operations, also contributed to our disappointing earnings performance.

These and other internal factors that hampered profitability confirmed the urgency of change initiatives that are upgrading the performance of our people, customer appeal of our stores and merchandising, and efficiency of our support structure and business processes. Accordingly, the pace of change accelerated last year, as we launched the second phase of our Great Renewal program – the implementation of a new supply chain infrastructure – to be completed over the next three years.

An important accomplishment in fiscal 2000 was the completion of our new operating management team. Elizabeth Culligan joined A&P in January as Executive Vice President & Chief Operating Officer, bringing outstanding management, leadership and consumer marketing expertise to our Company. We also made leadership changes in all three of our U.S. regions during the year. Better management was a factor in our improved fourth quarter operating results, and I am optimistic that we will sustain this momentum in the new year.

Our entire management team is committed to the achievement of five key objectives in 2001 and beyond:

- Achieve *operational excellence* across the entire Company;
- Implement and realize the benefits of *Great Renewal Phase II* – the renewal of our supply chain infrastructure – over the next three years;
- Reduce and continually monitor all *variable and fixed costs*;
- Identify *growth opportunities* that can increase our presence in core markets and provide profitable returns; and
- Align and strengthen our organization through *performance management*.

Each is critical to the realization of our mission to become the Supermarket of Choice, where people choose to shop, to work and to invest. Despite the challenges of fiscal 2000, we continued to make progress in these areas.

Our second annual associate opinion survey provided a wealth of insight regarding the quality of our management at all levels. This yearly process and related People Resources initiatives will support our developing Performance Management framework. Our goal as an employer is to ensure continuous workplace improvement and growth opportunities for our best people.

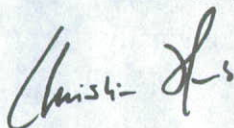
On the customer side, our quarterly feedback research showed that shoppers' opinions of our stores, associates and customer service levels continued to improve. Our management changes and emphasis on operating excellence underscore our commitment to offer the highest level of customer service. Although our rate of sales growth was slowed by consumer belt-tightening last year, we are encouraged that we again outperformed most competition, gaining market share in all four operating regions.

We continued to modernize our store base in 2000, adding 47 new stores and completing 45 major renovations and enlargements. Late in the year, management formulated a new and more rigorous capital development evaluation process, establishing more stringent criteria for potential new store projects. In fiscal 2001, we plan to open approximately 25 new stores primarily in the 50,000 – 60,000 square foot range, with many including pharmacies. The majority will be in the Metro New York and Detroit markets and in Ontario, Canada, where we have achieved the greatest success.

Great Renewal Phase II – the implementation of a state-of-the-art supply chain infrastructure including all related business processes and enabling technology – was launched in fiscal 2000. Key program elements are beginning to enhance our merchandising, store operations and supply and logistics functions. We are committed to the completion of all program elements over the next several years, and the realization of top and bottom line improvements.

In closing, fiscal 2000 was a year in which our commitment and resolve were put to the test. I am proud of the manner in which our people stepped up in the face of difficult circumstances, disappointing results and the challenging atmosphere of change necessary to our Company's long-term improvement.

On behalf of our Board of Directors and management, my thanks to all of our associates, stockholders, suppliers and customers. With their continued support, I am confident that A&P's Great Renewal will make solid progress in fiscal 2001.



Christian Haub
Chairman of the Board,
President & Chief Executive Officer
May 15, 2001

The Great Atlantic & Pacific Tea Company, Inc.
Management's Discussion and Analysis

OPERATING RESULTS

Fiscal 2000 Compared with 1999

Sales for the 52 weeks ended February 24, 2001 of \$10.6 billion increased \$471.5 million or 4.6% from the prior year. The increase in sales is primarily attributable to continued focus on the development of larger stores and comparable store sales increases. Retail square footage increased by approximately 1.0 million or 3.8% to 27.9 million square feet during fiscal 2000. This increase was accomplished primarily by opening 47 new stores adding 2.2 million retail square feet partially offset by closing 49 stores, reducing retail square footage by 1.4 million. Comparable store sales, which include replacement stores, increased 2.2% in fiscal 2000 (1.6% in the U.S. and 4.9% in Canada).

Average weekly sales per supermarket were approximately \$263,000 for the 52 week period of fiscal 2000 versus \$245,700 for the corresponding period of the prior year, an increase of 7.0%. Sales in the U.S. increased by \$266.1 million or 3.3% compared to fiscal 1999. Sales in Canada increased \$205.4 million or 9.5% from fiscal 1999.

Gross margin as a percentage of sales decreased 13 basis points to 28.51% for the 52 week period of fiscal 2000 from 28.64% for the 52 week period of fiscal 1999. The gross margin dollar increase of \$120.8 million resulted from an increase in sales volume partially offset by decreases in the gross margin rate and the Canadian exchange rate. The U.S. operations gross margin increase of \$92.5 million resulted from increases of \$80.4 million due to higher sales volume and \$12.1 million due to a higher gross margin rate. The Canadian operations gross margin increase of \$28.3 million resulted from an increase of \$54.1 million due to higher sales volume partially offset by a decrease of \$18.9 million due to a lower gross margin rate and a decrease of \$6.9 million from fluctuations in the Canadian exchange rate.

Store operating, general and administrative expense ("SG&A") was \$3.0 billion for the 52 week period of fiscal 2000 compared to \$2.8 billion for the corresponding period of the prior year. As a percentage of sales, SG&A increased from 27.61% in fiscal 1999 to 28.04% in fiscal 2000.

The SG&A expense for the 52 week period of fiscal 2000 included \$68.4 million relating to the Great Renewal – Phase II supply chain and business process initiative ("GR II"). Such costs primarily included professional consulting fees and salaries, including related benefits, of employees working full-time on the initiative. Also included in fiscal 2000 SG&A was \$4.3 million of estimated environmental clean up costs for a non-retail property. Partially offsetting fiscal 2000 SG&A was a reversal of \$3.1 million of charges related to the Great Renewal – Phase I store closure initiative ("GR I") originally recorded in fiscal 1998, resulting primarily from a change in estimate related to the sale of a warehouse sold during the first quarter of fiscal 2000.

The SG&A expense for the 52 week period of fiscal 1999 included \$121.5 million relating to GR I, including \$74.6 million of costs related to the store exiting charges and \$68.8 million of store operating, general and administrative expense incurred by the stores identified for closure prior to ceasing operations. This was partially offset by reversals of previously recorded restructuring charges due to favorable progress in marketing and subleasing the closed stores of \$21.9 million.

The Great Atlantic & Pacific Tea Company, Inc.
Management's Discussion and Analysis – Continued

Excluding the non-recurring charges and the results of the stores identified for closure previously noted, as a percentage of sales, SG&A increased from 26.83% for the 52 week period of fiscal 1999 to 27.38% for the 52 week period of fiscal 2000. The increase of 55 basis points is primarily due to higher labor, occupancy and store closing costs in fiscal 2000.

Interest expense for fiscal 2000 increased \$12.0 million or 14.3% from fiscal 1999 due to the increase in average borrowings, as well as an increase in interest rates primarily associated with the 9.375% Senior Quarterly Interest Bonds issued in August, 1999.

The loss before income taxes for the 52 week period of fiscal 2000 was \$39.7 million compared to income before income taxes of \$27.0 million for the comparable period in the prior year, a decrease of \$66.7 million. The loss is attributable principally to the increases in SG&A and interest expense partially offset by higher gross margin.

The income tax benefit/provision recorded in fiscal 2000 and 1999 reflect the estimated expected annual tax rates applied to its respective domestic and foreign financial results. In fiscal 2000, an income tax benefit amounting to \$14.6 million was recorded as compared to an income tax provision of \$12.8 million for fiscal 1999. The effective tax rates for fiscal 2000 and 1999 were 36.8% and 47.6%, respectively.

Based on these overall results, the net loss for fiscal 2000 was \$25.1 million or \$0.65 per share – basic and diluted, as compared to net income of \$14.2 million or \$0.37 per share – basic and diluted. The decrease in net income of \$39.2 million from fiscal 1999 to fiscal 2000 is attributable principally to the increases in SG&A and interest expense partially offset by higher gross margin.

Fiscal 1999 Compared with 1998

Sales for the 52 weeks ended February 26, 2000 of \$10.2 billion decreased \$28.0 million or 0.3% from the prior year. The decrease in sales is primarily attributable to the closure of 249 stores, excluding replacement stores, since the beginning of fiscal 1998 including 165 stores relating to GR I. Retail square footage decreased by approximately 1.8 million or 6.4% to 26.9 million square feet during fiscal 1999. This decrease was caused primarily by the closure of 142 stores reducing retail square footage by 4.4 million square feet partially offset by the addition of 52 new stores which increased retail square footage by 2.5 million square feet. Comparable store sales, which include replacement stores, increased 4.4% in fiscal 1999 (4.1% in the U.S. and 6.2% in Canada).

Average weekly sales per supermarket were approximately \$245,700 in fiscal 1999 versus \$210,500 in fiscal 1998, reflecting a 16.7% increase. Sales in the U.S. decreased by \$295.3 million or 3.6% compared to fiscal 1998. Sales in Canada increased \$267.3 million or 14.0% from fiscal 1998.

The Great Atlantic & Pacific Tea Company, Inc.
Management's Discussion and Analysis – Continued

Gross margin as a percentage of sales decreased 4 basis points to 28.64% for the 52 week period of fiscal 1999 from 28.68% for the 52 week period of fiscal 1998. Margins were negatively impacted by accelerated inventory markdowns in stores that were identified for closure under GR I and the exit of the Atlanta market during the first quarter of fiscal 1999. The gross margin dollar decrease of \$11.6 million resulted predominantly from lower sales volume. The U.S. operations gross margin decrease of \$56.2 million resulted from lower sales volume, which impacted gross margin by \$88.1 million, partially offset by an increase of \$31.9 million from a higher gross margin rate. The Canadian operations gross margin increase of \$44.6 million resulted from higher sales volume, which impacted gross margin by \$56.7 million, and an increase of \$6.4 million from fluctuations in the Canadian exchange rate. The increase was partially offset by a decrease of \$18.5 million due to a lower gross margin rate.

The SG&A expense decreased \$280.9 million from fiscal 1998. As a percentage of sales, SG&A for fiscal 1999 decreased to 27.61% from 30.29% for the prior year. Fiscal 1998 SG&A includes charges of \$224.6 million recorded in the third and fourth quarters to establish reserves relating to GR I. Also included in SG&A for fiscal 1998 are shut-down costs of stores and facilities amounting to \$9.1 million relating to 66 stores and three facilities closed in the third and fourth quarters and \$5.9 million of incurred professional fees associated with the identification and implementation of the store and facilities exit program. Further, SG&A for fiscal 1998 includes a \$7.0 million write-down of property no longer held for a potential store site and a \$4.0 million litigation charge.

Fiscal 1999 SG&A includes additional GR I related costs totaling \$74.6 million, including severance of \$11.1 million which could not be accrued in fiscal 1998 because it did not meet the criteria under Emerging Issues Task Force ("EITF") 94-3, professional fees of \$16.2 million associated with the implementation of the store exit program, transitionally higher labor costs of \$14.0 million, costs of \$19.7 million for the conversion of additional stores to the Food Basics format and \$8.5 million of other miscellaneous operating costs incurred in connection with the closures. The \$74.6 million also includes the costs of exiting the Atlanta market consisting of severance of \$5.5 million and store occupancy cost of \$11.5 million which relates principally to the present value of future lease obligations, partially offset by a gain of \$11.9 million that resulted from the disposition of fixed and intangible assets.

The total fiscal 1999 charge of \$74.6 million is partially offset by a \$21.9 million reversal of GR I charges originally recorded in fiscal 1998.

Reference should be made to the "Store and Facilities Exiting Program – Great Renewal – Phase I" section of this Management's Discussion and Analysis for further details of the Company's exiting program.

Excluding the non-recurring charges under GR I discussed above, fiscal 1999 SG&A decreased \$82.6 million from fiscal 1998. As a percentage of sales, SG&A decreased from 27.83% to 27.09%. Fiscal 1999 results included higher SG&A of the stores identified for closure under GR I of \$68.8 million, which represented 43.4% of the sales of those stores. Excluding the results of stores identified for closure and the non-recurring charges under GR I, fiscal 1999 SG&A as a percentage of sales was 26.83%.

The Great Atlantic & Pacific Tea Company, Inc.
Management's Discussion and Analysis – Continued

Interest expense increased \$12.5 million from the previous year, primarily due to the additional present value interest related to the future lease obligations of the store exit programs as well as the issuance of \$200 million of 9.375% senior quarterly interest bonds on August 6, 1999.

Interest income decreased \$0.4 million from the previous year, primarily due to a lower amount of short-term investments.

For fiscal 1999, income before income taxes was \$27.0 million compared to a loss of \$229.3 million in fiscal 1998, an increase of \$256.3 million. Income before taxes for U.S. operations was virtually break even compared to a loss of approximately \$244 million in fiscal 1998. The Canadian income before taxes for fiscal 1999 amounted to \$27.1 million, which was an increase of \$12.3 million from the fiscal 1998 amount of approximately \$14.8 million.

The Company recorded an income tax provision amounting to \$12.8 million in fiscal 1999 as compared to an income tax benefit of \$162.1 million for fiscal 1998. The fiscal 1999 income tax provision of \$12.8 million reflects the Company's estimated annual tax rates applied to its respective domestic and foreign operations. The effective tax rate for fiscal 1999 was 47.6%. The fiscal 1998 benefit of \$162.1 million includes the reversal of the Canadian operation's deferred tax valuation allowance. During the first three quarters of fiscal 1998, the Company reversed approximately \$9 million of the Canadian valuation allowance to the extent that the Canadian operations had taxable income. At the beginning of the fourth quarter of fiscal 1998, based upon Management's plan to close underperforming stores in Canada, the implementation of certain tax strategies and the continued performance improvements of the Canadian operations, Management concluded that it was more likely than not that the net deferred tax assets related to the Canadian operations would be realized. Accordingly, the Company reversed the remaining portion of the Canadian deferred tax valuation allowance amounting to approximately \$60 million (see Note 8 – Income Taxes for further discussion). The deferred tax benefit recorded during fiscal 1998 for U.S. operations of approximately \$103 million relates primarily to book and tax differences of the store and facilities exit costs.

Based on these overall results, net income for fiscal 1999 was \$14.1 million or \$0.37 per share – basic and diluted, as compared to a net loss of \$67.2 million or \$1.75 per share – basic and diluted. The increase in net income of \$81.3 million in fiscal 1999 from a net loss of \$67.2 million in fiscal 1998 is primarily the result of improved same store sales, reduced operating costs and the decrease in the store and facilities exit costs. The increase is partially offset by a reduction in the number of open stores.

STORE AND FACILITIES EXITING PROGRAM – GREAT RENEWAL – PHASE I

In May 1998, a sole Chief Executive Officer was named for the Company. Following the appointment, the Company initiated a vigorous assessment of all aspects of its business operations in order to identify the factors that were impacting the performance of the Company.

The Great Atlantic & Pacific Tea Company, Inc.
Management's Discussion and Analysis – Continued

As a result of the above assessment, in the third quarter of fiscal 1998, the Company decided to exit two warehouse facilities and a coffee plant in the U.S., and a bakery plant in Canada. In connection with the exit plan, the Company recorded a charge of approximately \$11 million which is included in "Store operating, general and administrative expense" in the Statements of Consolidated Operations for fiscal 1998. The \$11 million charge was comprised of \$7 million of severance, \$3 million of facilities occupancy costs for the period subsequent to closure and \$1 million to write-down the facilities to their estimated fair value.

As of February 27, 1999, the Company had closed and terminated operations with respect to the two warehouses and the coffee plant. The volume associated with the warehouses was transferred to other warehouses in close geographic proximity. Further, the manufacturing processes of the coffee plant have been transferred to the Company's remaining coffee processing facility. The processing associated with the Canadian bakery was outsourced in January 1999.

In addition, in December 1998, the Company's Board of Directors approved a plan which included the exit of 127 underperforming stores throughout the United States and Canada and the disposal of two other properties. Included in the 127 stores were 31 stores representing the entire Richmond, Virginia market. Further, in January 1999, the Board of Directors approved the closure of five additional underperforming stores. In connection with the Company's plan to exit these 132 stores and the write-down of two properties, the Company recorded a charge in the fourth quarter of fiscal 1998 of approximately \$215 million.

This \$215 million charge consisted of \$8 million of severance (including pension withdrawal obligations), \$1 million of facilities occupancy costs, \$114 million of store occupancy costs, which principally relates to the present value of future lease obligations, net of anticipated sublease recoveries, which extend through fiscal 2028, an \$83 million write-down of store fixed assets and a \$9 million write-down to estimated fair value of two properties. To the extent fixed assets included in stores identified for closure could be utilized in other continuing stores, the Company transferred those assets to continuing stores. The Company planned to scrap fixed assets that could not be transferred, and accordingly, the write-down was calculated based upon an estimated scrap value. This fourth quarter charge of \$215 million was reduced by approximately \$2 million in fiscal 1998 due to changes in estimates of pension withdrawal liabilities and fixed asset write-downs from the time the original charge was recorded. The net charge of \$213 million is included in "Store operating, general and administrative expense" in the Company's Statements of Consolidated Operations for fiscal 1998.

In addition to the charges recorded in fiscal 1998, there were other charges related to the plan which could not be accrued for at February 27, 1999 because they did not meet the criteria for accrual under EITF 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit Activity (Including Certain Costs Incurred in a Restructuring)". Such costs have been expensed as incurred as the plan was being executed. During fiscal 1999, the Company recorded an additional pretax charge of \$11 million for severance related to the 132 stores. No additional expense was recorded during fiscal 2000.

The Great Atlantic & Pacific Tea Company, Inc.
Management's Discussion and Analysis – Continued

In April 1999, the Company announced that it had reached definitive agreements to sell 14 stores in the Atlanta, Georgia market, two of which were previously included in the Company's store exit program. In conjunction with the sale, the Company decided to exit the entire Atlanta market and close the remaining 22 stores, as well as the distribution center and administrative office. Accordingly, at the time of the announcement, the Company recorded a fiscal 1999 first quarter net pretax charge of approximately \$5 million. This charge was comprised of severance of \$6 million and future lease commitments of \$11 million, partially offset by a \$12 million gain related to the disposition of fixed and intangible assets. The net charge is included in "Store operating, general and administrative expense" in the Company's Statements of Consolidated Operations for fiscal 1999.

As of February 24, 2001, the Company has closed 165 stores, including 34 stores in the Atlanta, Georgia market and 31 stores in the Richmond, Virginia market.

From the time of the original charges through the end of fiscal 2000, \$28 million of the total severance charges had been paid, which resulted from the termination of approximately 3,400 employees. The remaining severance liability relates to future obligations for early withdrawals from multi-employer union pension plans.

At each balance sheet date, Management assesses the adequacy of the reserve balance to determine if any adjustments are required as a result of changes in circumstances and/or estimates. The Company has made favorable progress to date in marketing and subleasing the closed stores. As a result, in the third quarter of fiscal 1999, the Company recorded a net reduction in SG&A of \$21.9 million to reverse a portion of the \$215 million restructuring charge recorded in fiscal 1998. This amount represents a \$22.2 million reduction in SG&A for lower store occupancy costs resulting primarily from earlier than anticipated lease terminations and subleases. The credit is partially offset by \$0.3 million of additional fixed asset write-downs resulting from lower than anticipated proceeds from the sale of fixed assets. Additionally, in fiscal 2000, the Company recorded a net reduction in SG&A of \$3.1 million to reverse a portion of the \$215 million restructuring charge recorded in fiscal 1998. The reversal is primarily the result of a change in estimate resulting from the sale of one of the Company's warehouses sold during the first quarter of fiscal 2000.

Based upon current available information, Management evaluated the reserve balance of \$85.6 million as of February 24, 2001 and has concluded that it is adequate. The Company will continue to monitor the status of the vacant properties and further adjustments to the reserve balance may be recorded in the future, if necessary.

SUPPLY CHAIN INITIATIVE – GREAT RENEWAL – PHASE II

On March 13, 2000, the Company announced GR II, a major initiative to develop a state-of-the-art supply chain and business management infrastructure.

Overall, the Company expects to achieve substantial cash benefits resulting from improved margins, lower operating expenses, reduced working capital and better product availability. After implementation, the Company expects to significantly raise the level of ongoing annual operating income.

The Great Atlantic & Pacific Tea Company, Inc.
Management's Discussion and Analysis – Continued

Costs related to implementing GR II reduced net earnings for fiscal 2000 by \$1.15 per share. The Company expects the cost of implementing GR II to reduce net earnings for fiscal 2001 by approximately \$1.50 per share.

A team of A&P executives representing all key business functions is working with a team of strategic alliance consultants concentrating on the food and drug retailing industry formed by information technology industry leaders. This combined team is upgrading all processes and business systems related to the flow of information and products between A&P-operated offices, distribution points and stores; and between the Company and its suppliers. Such business processes support Store Operations, Marketing and Merchandising, Supply and Logistics, People Resources & Services, Finance and the enabling technologies.

LIQUIDITY AND CAPITAL RESOURCES

The Company had working capital of \$94.4 million at February 24, 2001 compared to \$98.3 million at February 26, 2000. The Company had cash and short-term investments aggregating \$131.6 million at the end of fiscal 2000 compared to \$124.6 million as of fiscal 1999 year end. The Company had no short-term investments at February 24, 2001 compared to \$26.9 million at February 26, 2000. Working capital of \$94.4 million at February 24, 2001 includes approximately \$28 million of assets held for sale within "Prepaid expenses and other current assets" on the Company's Consolidated Balance Sheets relating to assets to be sold and leased back in early fiscal 2001 (see Note 14 – Sale-Leaseback Transaction for further details). Excluding the assets held for sale, the decrease in working capital is attributable primarily to decreases in short-term investments, accounts receivable and inventories partially offset by an increase in cash and a decrease in accounts payable.

On August 6, 1999, the Company issued \$200 million aggregate principal amount 9.375% senior quarterly interest bonds due August 1, 2039. The Company used the net proceeds from the issuance of the bonds to repay borrowings under its revolving credit facility, to finance the purchase of 16 stores, (6 in the United States and 10 in Canada) and for working capital and general corporate purposes.

At February 24, 2001, the Company had an unsecured five year \$498 million revolving credit agreement (the "Unsecured Credit Agreement") which was to expire June 10, 2002 with a syndicate of banks, enabling it to borrow funds on a revolving basis sufficient to refinance short-term borrowings. This agreement was subsequently replaced by a secured revolving credit agreement described below. As of February 24, 2001, the Unsecured Credit Agreement was comprised of the U.S. credit agreement amounting to \$415 million and the Canadian credit agreement amounting to C\$121 million (U.S. \$83 million). As of February 24, 2001, the Company had \$190 million of borrowings under the Unsecured Credit Agreement consisting of \$145 million under the U.S. credit agreement and C\$69 million (U.S. \$45 million) under the Canadian credit agreement. This compared to borrowings of \$60 million under the U.S. credit agreement and no borrowings under the Canadian credit agreement at February 26, 2000.

The Great Atlantic & Pacific Tea Company, Inc.
Management's Discussion and Analysis – Continued

On February 23, 2001, the Company executed an agreement with a syndicate of banks to replace the Unsecured Credit Agreement with a \$425 million secured revolving credit agreement (the "Secured Credit Agreement") expiring December 31, 2003. The outstanding borrowings under the Unsecured Credit Agreement were refinanced with this new facility. This agreement is secured primarily by inventory and company-owned real estate. The Secured Credit Agreement was comprised of a U.S. credit agreement amounting to \$340 million and a Canadian credit agreement amounting to C\$131 million (U.S. \$85 million). Upon execution of the Secured Credit Agreement, the syndicate was instructed to fund the Company in an amount sufficient to repay the entire outstanding balance on the Unsecured Credit Agreement. Such funding took place on February 28, 2001. If the repayment of the Unsecured Credit Agreement had been funded on February 24, 2001, after reducing availability for outstanding letters of credit, availability under the new facility would have been \$183 million.

The Company's loan agreements and certain of its notes contain various financial covenants which require, among other things, minimum fixed charge coverage and maximum levels of leverage and capital expenditures. During the fourth quarter of fiscal 2000, the Company negotiated the aforementioned Secured Credit Agreement to replace its prior facility. This agreement includes covenants, terms and conditions which reflect the Company's current operating performance and capital programs. At February 24, 2001, the Company was in compliance with the covenants on the notes and the Secured Credit Agreement.

As described in Note 12 of the Consolidated Financial Statements for the fiscal year ended February 24, 2001, during fiscal 2000, an agreement was entered into which provides financing for software purchases and hardware leases primarily relating to the GR II. Presently, software purchases and hardware leases will be financed at an effective rate of 8.49% per annum. Software purchases and hardware leases will occur from time to time over the next four years. Equal monthly payments of \$1.4 million are currently being made. Such payments are subject to change based upon the timing and amount of such funding. As of February 24, 2001, \$26.8 million was funded for software purchases and hardware with a total fair market value of \$10.7 million had been leased.

On November 1, 2000, the Company's Canadian subsidiary, The Great Atlantic & Pacific Company of Canada, Limited, repaid its outstanding \$75 million 5 year Notes denominated in U.S. dollars. The repayment of these Notes was funded by the Unsecured Credit Agreement at an average rate of 6.55%.

The Company has filed two Shelf Registration Statements dated January 23, 1998 and June 23, 1999, allowing it to offer up to \$350 million of debt and/or equity securities as of February 24, 2001 at terms determined by market conditions at the time of sale.

As described in Note 14 of the Consolidated Financial Statements for the fiscal year ended February 24, 2001, on December 29, 2000 and February 16, 2001, the Company sold 12 properties and simultaneously leased them back from the purchaser. Net proceeds received by the Company relating to this transaction amounted to \$113 million. The Company has or expects to enter into similar transactions with six other owned properties in fiscal 2001 with expected gross proceeds of \$30-\$40 million.

The Great Atlantic & Pacific Tea Company, Inc.
Management's Discussion and Analysis – Continued

During fiscal 2000, the Company funded its capital expenditures, debt repayments, cash dividends and GR II expenses through internally generated funds combined with proceeds from disposals of property, bank borrowings, and revolving lines of credit. Capital expenditures totaled \$416 million during fiscal 2000, which included 47 new supermarkets, and 45 major remodels or enlargements, and the Company's capital expenditures related to GR II.

For fiscal 2001, the Company plans to incur approximately \$100 million, before tax benefits, in cash expenditures relating to GR II.

In addition to GR II, for fiscal 2001, the Company has planned capital expenditures of approximately \$275 million which includes costs to open 25 new supermarkets. The Company currently expects to close a total of approximately 25 to 30 stores in fiscal 2001.

On December 5, 2000, the Board of Directors voted to discontinue payment of the quarterly cash dividend on its common stock. Prior to that, three quarterly cash dividends of \$0.10 per share amounting to \$11.5 million were declared and paid in fiscal 2000.

On September 7, 2000, Standard & Poor's Ratings Group ("S&P") lowered its rating on the Company's debt to BB stable. On December 15, 2000, Moody's Investors Service ("Moody's") lowered its rating on the Company's debt to Ba3 under continued review. On December 22, 2000, S&P lowered its rating on the Company's debt to BB with negative implications. On February 2, 2001, Moody's lowered its rating on the Company's debt to B2. Future rating changes could affect the availability and cost of financing to the Company.

The Company believes that its current cash resources, including the funds available under the Secured Credit Agreement, together with cash generated from operations, will be sufficient for the Company's 2001 GR II and other capital expenditure programs and mandatory scheduled debt repayments throughout fiscal 2001.

MARKET RISK

Market risk represents the risk of loss from adverse market changes that may impact the consolidated financial position, results of operations or cash flows of the Company. Among other possible market risks, the Company is exposed to such risk in the areas of interest rates and foreign currency exchange rates.

Interest Rates

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's debt obligations. The Company has no cash flow exposure due to rate changes on its \$700 million in notes as of February 24, 2001 because they are at fixed interest rates. However, the Company does have cash flow exposure on its committed and uncommitted bank lines of credit due to its variable LIBOR pricing. Accordingly, as of February 24, 2001, a 1% change in LIBOR will result in interest expense fluctuating \$1.9 million.

The Great Atlantic & Pacific Tea Company, Inc.
Management's Discussion and Analysis – Continued

Foreign Exchange Risk

The Company is exposed to foreign exchange risk to the extent of adverse fluctuations in the Canadian dollar. For the fiscal year ended February 24, 2001, a change in the Canadian currency of 10% would have resulted in a fluctuation in net income of \$1.9 million. The Company does not believe that a change in the Canadian currency of 10% will have a material effect on the financial position or cash flows of the Company.

IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). This Statement requires that all derivative instruments be measured at fair value and recognized in the Consolidated Balance Sheets as either assets or liabilities. In addition, the accounting for changes in the fair value of a derivative (gains and losses) depends on the intended use of the derivative and the resulting designation. For a derivative designated as a hedge, the change in fair value will be recognized as a component of other comprehensive income; for a derivative not designated as a hedge, the change in the fair value will be recognized in the Statements of Consolidated Operations.

In June 1999, the FASB issued SFAS No. 137, "Accounting For Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133" which delayed the adoption of SFAS 133 for one year, to fiscal years beginning after June 15, 2000.

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The Great Atlantic & Pacific Tea Company, Inc.
Management's Discussion and Analysis – Continued

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" ("SAB 101"). SAB 101 was issued to provide guidance in applying generally accepted accounting principles to the large number of revenue recognition issues that registrants encounter, including nonrefundable, up-front fees and the disclosure of judgments as to the appropriateness of the principles relating to revenue recognition accounting policies. Since the issuance of SAB 101, the Staff has received requests from a number of groups asking for additional time to determine the effects, if any, on registrants' revenue recognition practices and as such, the SEC has delayed the implementation date of SAB 101 until no later than the fourth quarter of fiscal years beginning after December 15, 1999. The Company has evaluated the impact of this Staff Accounting Bulletin and has concluded that it has no effect on the Consolidated Financial Statements. Retail revenue is recognized at point of sale while wholesale revenue is recognized in accordance with its terms, when goods are shipped. Vendor allowances and credits that relate to the Company's buying and merchandising activities are recognized as earned.

In May 2000, the EITF issued No. 00-14 "Accounting for Certain Sales Incentives". The EITF reached a consensus on several issues involving the accounting and income statement classification of rebates, coupons and other discounts. The Company has evaluated the impact of this issue and has concluded that it has no effect on the accounting or classification of sales incentives because coupons issued by the Company are recorded upon redemption as a reduction of sales.

CAUTIONARY NOTE

This report contains certain forward-looking statements about the future performance of the Company which are based on Management's assumptions and beliefs in light of the information currently available to it. The Company assumes no obligation to update the information contained herein. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements including, but not limited to: competitive practices and pricing in the food industry generally and particularly in the Company's principal markets; the Company's relationships with its employees and the terms of future collective bargaining agreements; the costs and other effects of legal and administrative cases and proceedings; the nature and extent of continued consolidation in the food industry; changes in the financial markets which may affect the Company's cost of capital and the ability of the Company to access the public debt and equity markets to refinance indebtedness and fund the Company's capital expenditure programs on satisfactory terms; supply or quality control problems with the Company's vendors and changes in economic conditions which affect the buying patterns of the Company's customers.

The Great Atlantic & Pacific Tea Company, Inc.
Statements of Consolidated Operations
(Dollars in thousands, except per share amounts)

	52 Weeks Ended		
	February 24, 2001	February 26, 2000	February 27, 1999
Sales	\$10,622,866	\$10,151,334	\$10,179,358
Cost of merchandise sold	<u>(7,594,450)</u>	<u>(7,243,718)</u>	<u>(7,260,110)</u>
Gross margin	3,028,416	2,907,616	2,919,248
Store operating, general and administrative expense	<u>(2,978,223)</u>	<u>(2,802,786)</u>	<u>(3,083,639)</u>
Income (loss) from operations	50,193	104,830	(164,391)
Interest expense	(96,088)	(84,045)	(71,497)
Interest income	<u>6,222</u>	<u>6,218</u>	<u>6,604</u>
(Loss) income before income taxes	(39,673)	27,003	(229,284)
Benefit from (provision for) income taxes	<u>14,605</u>	<u>(12,843)</u>	<u>162,120</u>
Net (loss) income	<u>\$ (25,068)</u>	<u>\$ 14,160</u>	<u>\$ (67,164)</u>
Net (loss) income per share – basic and diluted	<u>\$ (0.65)</u>	<u>\$ 0.37</u>	<u>\$ (1.75)</u>
Weighted average common shares outstanding – basic	<u>38,347,216</u>	<u>38,330,379</u>	<u>38,273,859</u>
Weighted average common shares outstanding – diluted	<u>38,347,216</u>	<u>38,415,420</u>	<u>38,273,859</u>

See Notes to Consolidated Financial Statements.

The Great Atlantic & Pacific Tea Company, Inc.
Statements of Consolidated Stockholders' Equity and Comprehensive (Loss) Income
(Dollars in thousands, except share amounts)

	Common stock		Additional paid-in capital	Unamortized value of restricted stock grant	Accumulated other comprehensive (loss) income	Retained earnings	Total stockholders' equity
	Shares	Amount					
Balance at 2/29/98	38,252,966	\$ 38,253	\$453,894	\$ —	\$ (61,025)	\$495,510	\$ 926,632
Net loss						(67,164)	(67,164)
Stock options exercised	37,750	38	1,077				1,115
Comprehensive loss					(8,014)		(8,014)
Cash dividends						(15,312)	(15,312)
Balance at 2/27/99	38,290,716	38,291	454,971	—	(69,039)	413,034	837,257
Net income						14,160	14,160
Stock options exercised	56,500	56	1,499				1,555
Issuance of 20,000 shares of restricted common stock	20,000	20	631	(651)			—
Amortization of restricted stock grant				210			210
Comprehensive income					8,343		8,343
Cash dividends						(15,333)	(15,333)
Balance at 2/26/00	38,367,216	38,367	457,101	(441)	(60,696)	411,861	846,192
Net loss						(25,068)	(25,068)
Forfeiture of restricted stock grant	(20,000)	(20)	(631)	441			(210)
Comprehensive loss					(12,112)		(12,112)
Cash dividends						(11,505)	(11,505)
Balance at 2/24/01	<u>38,347,216</u>	<u>\$ 38,347</u>	<u>\$456,470</u>	<u>\$ —</u>	<u>\$ (72,808)</u>	<u>\$375,288</u>	<u>\$ 797,297</u>

	52 Weeks Ended		
	February 24, 2001	February 26, 2000	February 27, 1999
<u>Comprehensive (loss) income</u>			
Net (loss) income	<u>\$ (25,068)</u>	<u>\$ 14,160</u>	<u>\$ (67,164)</u>
Foreign currency translation adjustment	(14,802)	6,784	(9,936)
Minimum pension liability adjustment	2,690	1,559	1,922
Other comprehensive (loss) income	<u>(12,112)</u>	<u>8,343</u>	<u>(8,014)</u>
Total comprehensive (loss) income	<u>\$ (37,180)</u>	<u>\$ 22,503</u>	<u>\$ (75,178)</u>

See Notes to Consolidated Financial Statements.

The Great Atlantic & Pacific Tea Company, Inc.

Consolidated Balance Sheets

(Dollars in thousands, except share amounts)

	February 24, 2001	February 26, 2000
Assets		
Current assets:		
Cash and short-term investments	\$ 131,550	\$ 124,603
Accounts receivable	183,382	227,078
Inventories	783,758	791,150
Prepaid expenses and other current assets	103,164	80,052
Total current assets	<u>1,201,854</u>	<u>1,222,883</u>
Property:		
Land	107,893	137,672
Buildings	359,275	420,345
Equipment and leasehold improvements	2,388,366	2,274,349
Total – at cost	2,855,534	2,832,366
Less accumulated depreciation and amortization	(1,050,279)	(1,042,704)
Property owned	1,805,255	1,789,662
Property leased under capital leases	84,758	94,146
Property – net	1,890,013	1,883,808
Other assets	217,936	228,834
Total assets	<u>\$3,309,803</u>	<u>\$3,335,525</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	\$ 6,195	\$ 2,382
Current portion of obligations under capital leases	11,634	11,327
Accounts payable	566,482	583,142
Book overdrafts	108,448	112,465
Accrued salaries, wages and benefits	158,450	155,649
Accrued taxes	62,169	51,611
Other accruals	194,106	208,002
Total current liabilities	<u>1,107,484</u>	<u>1,124,578</u>
Long-term debt	915,321	865,675
Long-term obligations under capital leases	106,797	117,870
Other non-current liabilities	382,904	381,210
Total liabilities	<u>2,512,506</u>	<u>2,489,333</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock-no par value; authorized – 3,000,000 shares; issued – none	–	–
Common stock – \$1 par value; authorized – 80,000,000 shares; issued and outstanding – 38,347,216 and 38,367,216 shares at February 24, 2001 and February 26, 2000, respectively	38,347	38,367
Additional paid-in capital	456,470	457,101
Unamortized value of restricted stock grant	–	(441)
Accumulated other comprehensive loss	(72,808)	(60,696)
Retained earnings	375,288	411,861
Total stockholders' equity	<u>797,297</u>	<u>846,192</u>
Total liabilities and stockholders' equity	<u>\$3,309,803</u>	<u>\$3,335,525</u>

See Notes to Consolidated Financial Statements.

The Great Atlantic & Pacific Tea Company, Inc.
Statements of Consolidated Cash Flows
(Dollars in thousands)

	52 Weeks Ended		
	February 24, 2001	February 26, 2000	February 27, 1999
Cash Flows From Operating Activities:			
Net (loss) income	\$ (25,068)	\$ 14,160	\$ (67,164)
Adjustments to reconcile net (loss) income to cash provided by operating activities:			
Store/Facilities exit charge and asset write-off	(3,104)	14,078	224,580
Environmental charge	4,329	—	—
Depreciation and amortization	255,771	232,712	233,663
Deferred income tax (benefit) provision	(18,136)	8,258	(165,672)
Loss (gain) on disposal of owned property and write-down of property, net	4,263	(2,973)	4,541
Decrease (increase) in receivables	41,085	(23,041)	19,562
(Increase) decrease in inventories	(336)	60,026	34,762
Decrease in prepaid expenses and other current assets	4,903	2,392	6,816
(Increase) decrease in other assets	(7,648)	(16,630)	2,071
Increase in accounts payable	5,443	16,546	122,251
Increase in accrued expenses	13,104	4,797	2,633
(Decrease) increase in other accruals	(25,644)	518	43,604
Increase in other non-current liabilities	2,353	5,432	28,203
Other, net	2,446	(1,615)	(2,764)
Net cash provided by operating activities	<u>253,761</u>	<u>314,660</u>	<u>487,086</u>
Cash Flows From Investing Activities:			
Expenditures for property	(415,842)	(479,572)	(438,345)
Proceeds from disposal of property	150,255	101,319	12,546
Net cash used in investing activities	<u>(265,587)</u>	<u>(378,253)</u>	<u>(425,799)</u>
Cash Flows From Financing Activities:			
Proceeds under revolving lines of credit	817,447	165,102	451,523
Payments on revolving lines of credit	(602,307)	(235,150)	(411,632)
Proceeds from long-term borrowings	4,981	206,010	3,685
Payments on long-term borrowings	(166,670)	(4,975)	(22,456)
Principal payments on capital leases	(11,252)	(11,968)	(12,139)
(Decrease) increase in book overdrafts	(3,298)	(49,354)	12,079
Deferred financing fees	(6,428)	(6,298)	—
Proceeds from stock options exercised	—	1,555	1,115
Cash dividends	(11,505)	(15,333)	(15,312)
Net cash provided by financing activities	<u>20,968</u>	<u>49,589</u>	<u>6,863</u>
Effect of exchange rate changes on cash and short-term investments	<u>(2,195)</u>	<u>1,797</u>	<u>(2,277)</u>
Net increase (decrease) in cash and short-term investments	6,947	(12,207)	65,873
Cash and short-term investments at beginning of year	<u>124,603</u>	<u>136,810</u>	<u>70,937</u>
Cash and short-term investments at end of year	<u>\$ 131,550</u>	<u>\$ 124,603</u>	<u>\$ 136,810</u>

See Notes to Consolidated Financial Statements.

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements
(Dollars in thousands, except share amounts, and where noted)

Note 1 – Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries. The Company operates retail supermarkets in the United States and Canada. The U.S. operations are mainly in the Eastern part of the U.S. and certain parts of the Midwest. See the following footnotes for additional information on the Canadian Operations: Note 4 – Wholesale Franchise Business, Note 5 – Indebtedness, Note 8 – Income Taxes, Note 9 – Retirement Plans and Benefits, and Note 13 – Operating Segments. The principal stockholder of the Company, Tengelmann Warenhandelsgesellschaft, owned 56.6% of the Company's common stock as of February 24, 2001.

Fiscal Year

The Company's fiscal year ends on the last Saturday in February. Fiscal 2000 ended February 24, 2001, fiscal 1999 ended February 26, 2000 and fiscal 1998 ended February 27, 1999. Fiscal 2000, fiscal 1999 and fiscal 1998 were each comprised of 52 weeks.

Revenue Recognition

Retail revenue is recognized at point-of-sale while wholesale revenue is recognized in accordance with its terms, when goods are shipped.

Cash and Short-term Investments

Short-term investments that are highly liquid with an original maturity of three months or less are included in "Cash and short-term investments" and are deemed to be cash equivalents.

Inventories

Store inventories are valued principally at the lower of cost or market with cost determined under the retail method. Warehouse and other inventories are valued primarily at the lower of cost or market with cost determined on a first-in, first-out basis. Inventories of certain acquired companies are valued using the last-in, first-out method, which was their practice prior to acquisition. See Note 3 – Inventory for additional information regarding the Company's use of the last-in, first-out method.

Advertising Costs

Advertising costs are expensed as incurred. The Company recorded advertising expense of \$147 million, \$139 million and \$136 million for fiscal 2000, 1999 and 1998, respectively.

Pre-opening Costs

The costs of opening new stores are expensed as incurred.

Software Costs

The Company capitalizes externally purchased software and amortizes it over three years. Amortization expense for fiscal 2000, 1999 and 1998 was \$1.4 million, \$0.9 million and \$0.8 million, respectively.

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

Effective February 29, 1998, the Company adopted the provisions of the American Institute of Certified Public Accountants' Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). SOP 98-1 requires the capitalization of certain internally generated software costs. In fiscal 2000, 1999 and 1998, the Company capitalized \$3.7 million, \$0.9 million and \$1.4 million, respectively, of such software costs. Such software is amortized over three years and for fiscal 2000, 1999 and 1998, the Company recorded amortization expense of \$0.7 million, \$0.5 million and \$0.1 million, respectively.

Earnings Per Share

The Company calculates earnings per share in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share" ("SFAS 128"). SFAS 128 requires dual presentation of basic and diluted earnings per share ("EPS") on the face of the Statements of Consolidated Operations and requires a reconciliation of the numerators and denominators of the basic and diluted EPS calculations. Basic EPS is computed by dividing net income by the weighted average shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if options to issue common stock were exercised and converted to common stock.

The weighted average shares outstanding utilized in the basic EPS calculation were 38,347,216 for fiscal 2000, 38,330,379 for fiscal 1999 and 38,273,859 for fiscal 1998. The common stock equivalents that were added to the weighted average shares outstanding for purposes of diluted EPS were 85,041 for fiscal 1999. The common stock equivalents for fiscal 2000 and 1998 would have been 14,478 and 47,772, respectively; however, such shares were antidilutive and thus excluded from the diluted EPS calculation.

Excess of Cost over Net Assets Acquired

The excess of cost over fair value of net assets acquired is amortized on a straight-line basis between fifteen to forty years. The Company recorded amortization expense of \$1.5 million for both fiscal 2000 and 1998 and \$1.2 million for fiscal 1999. The book value of excess of cost over net assets acquired at February 24, 2001 and February 26, 2000 was \$34.2 million and \$34.1 million, net of accumulated amortization relating to goodwill of \$12.5 million and \$11.1 million, respectively.

At each balance sheet date, Management reassesses the appropriateness of the goodwill balance based on forecasts of cash flows from operating results on an undiscounted basis. If the results of such comparison indicate that an impairment may exist, the Company will recognize a charge to operations at that time based upon the difference between the present value of the expected cash flows from future operating results (utilizing a discount rate equal to the Company's average cost of funds at that time) and the balance sheet value. The recoverability of goodwill is at risk to the extent the Company is unable to achieve its forecast assumptions regarding cash flows from operating results. At February 24, 2001, the Company estimates that the cash flows projected to be generated by the respective businesses on an undiscounted basis should be sufficient to recover the existing goodwill balance over its remaining life.

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

Long-Lived Assets

The Company reviews the carrying values of its long-lived and identifiable intangible assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. Such review is based upon groups of assets and the undiscounted estimated future cash flows from such assets to determine if the carrying value of such assets are recoverable from their respective cash flows.

The Company recorded impairment losses during the year ended February 24, 2001 related to the sale leaseback transaction (see Note 14 – Sale-Leaseback Transaction for further details) and during the year ended February 27, 1999 related to its store and facility exit initiative (see Note 2 – Store and Facilities Exit Costs for further details).

Properties

Depreciation and amortization are calculated on the straight-line basis over the estimated useful lives of the assets. Buildings are depreciated based on lives varying from twenty to fifty years and equipment based on lives varying from three to ten years. Real property leased under capital leases is amortized over the lives of the respective leases or over their economic useful lives, whichever is less. During fiscal 2000, 1999 and 1998, the Company disposed of and/or wrote down certain assets which resulted in a pretax net loss of \$4 million, a pretax net gain of \$3 million, and a pretax net loss of \$5 million, respectively.

Income Taxes

The Company provides deferred income taxes on temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws.

Current Liabilities

Certain accounts payable checks issued but not presented to banks frequently result in negative book balances for accounting purposes. Such amounts are classified as “Book overdrafts” in the Consolidated Balance Sheets.

The Company accrues for vested and non-vested vacation pay. Liabilities for compensated absences of \$81.7 million and \$78.8 million at February 24, 2001 and February 26, 2000, respectively, are included in the balance sheet caption “Accrued salaries, wages and benefits”.

Stock-Based Compensation

The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25 “Accounting for Stock Issued to Employees” (“APB 25”) with pro forma disclosure of net income and earnings per share as if the fair value based method prescribed by SFAS No. 123, “Accounting for Stock-Based Compensation” (“SFAS 123”) had been applied.

Comprehensive Income

Effective March 1, 1998, the Company adopted SFAS No. 130, “Reporting Comprehensive Income”. This statement requires that all components of comprehensive income be reported prominently in the financial statements. Currently, the Company has other comprehensive income relating to foreign currency translation adjustment and minimum pension liability adjustment.

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

Accumulated other comprehensive loss as of February 24, 2001 includes foreign currency translation of \$72.7 million and an additional minimum pension liability of less than \$0.1 million. Accumulated other comprehensive loss as of February 26, 2000 includes foreign currency translation of \$58.0 million and an additional minimum pension liability of \$2.7 million, net of income tax benefit of \$2.2 million. Accumulated other comprehensive loss as of February 27, 1999 includes foreign currency translation of \$64.8 million and an additional minimum pension liability of \$4.3 million, net of income tax benefit of \$3.4 million.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Consolidated Balance Sheets include liabilities with respect to self-insured workers' compensation and general liability claims. The Company determines the required liability of such claims based upon various assumptions which include, but are not limited to, the Company's historical loss experience, industry loss standards, projected loss development factors, projected payroll, employee headcount and other internal data. It is reasonably possible that the final resolution of some of these claims may require significant expenditures by the Company in excess of its existing reserves, over an extended period of time and in a range of amounts that cannot be reasonably estimated.

Reclassifications

Certain reclassifications have been made to the prior years' financial statements in order to conform to the current year's presentation.

New Accounting Pronouncements Not Yet Adopted

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). This statement requires that all derivative instruments be measured at fair value and recognized in the balance sheet as either assets or liabilities. In addition, the accounting for changes in the fair value of a derivative (gains and losses) depends on the intended use of the derivative and the resulting designation. For a derivative designated as a hedge, the change in fair value will be recognized as a component of other comprehensive income; for a derivative not designated as a hedge, the change in the fair value will be recognized in the Statements of Consolidated Operations.

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The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

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In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" ("SAB 101"). SAB 101 was issued to provide guidance in applying generally accepted accounting principles to the large number of revenue recognition issues that registrants encounter, including nonrefundable, up-front fees and the disclosure of judgements as to the appropriateness of the principles relating to revenue recognition accounting policies. Since the issuance of SAB 101, the Staff has received requests from a number of groups asking for additional time to determine the effects, if any, on registrants' revenue recognition practices and as such, the SEC has delayed the implementation date of SAB 101 until no later than the fourth quarter of fiscal years beginning after December 15, 1999. The Company has evaluated the impact of this Staff Accounting Bulletin and has concluded that it has no effect on the Consolidated Financial Statements. Retail revenue is recognized at point of sale while wholesale revenue is recognized in accordance with its terms, when goods are shipped. Vendor allowances and credits that relate to the Company's buying and merchandising activities are recognized as earned.

In May 2000, the Emerging Issues Task Force ("EITF") issued No. 00-14 "Accounting for Certain Sales Incentives". The EITF reached a consensus on several issues involving the accounting and income statement classification of rebates, coupons and other discounts. The Company has evaluated the impact of this issue and has concluded that it has no effect on the accounting or classification of sales incentives because coupons issued by the Company are recorded upon redemption as a reduction of sales.

Note 2 – Store and Facilities Exit Costs (Great Renewal – Phase I)

In May 1998, the Company initiated a vigorous assessment of all aspects of its business operations in order to identify the factors that were impacting the performance of the Company.

As a result of the above assessment, in the third quarter of fiscal 1998, the Company decided to exit two warehouse facilities and a coffee plant in the U.S., and a bakery plant in Canada. In connection with the exit plan, the Company recorded a charge of approximately \$11 million which is included in "Store operating, general and administrative expense" in the Company's Statements of Consolidated Operations for fiscal 1998. The \$11 million charge was comprised of \$7 million of severance, \$3 million of facilities occupancy costs for the period subsequent to closure and \$1 million to write-down the facilities to their estimated fair value.

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

As of February 27, 1999, the Company had closed and terminated operations with respect to the two warehouses and the coffee plant. The volume associated with the warehouses was transferred to other warehouses in close geographic proximity. Further, the manufacturing processes of the coffee plant were transferred to the Company's remaining coffee processing facility. The processing associated with the Canadian bakery was outsourced in January 1999.

In addition, in December 1998, the Company's Board of Directors approved a plan which included the exit of 127 underperforming stores throughout the United States and Canada and the disposal of two other properties. Included in the 127 stores were 31 stores representing the entire Richmond, Virginia market. Further, in January 1999, the Board of Directors approved the closure of five additional underperforming stores. In connection with the Company's plan to exit these 132 stores and the write-down of two properties, the Company recorded a charge in the fourth quarter of fiscal 1998 of approximately \$215 million.

This \$215 million charge consisted of \$8 million of severance (including pension withdrawal obligations), \$1 million of facilities occupancy costs, \$114 million of store occupancy costs, which principally relates to the present value of future lease obligations, net of anticipated sublease recoveries, which extend through fiscal 2028, an \$83 million write-down of store fixed assets and a \$9 million write-down to estimated fair value of two properties. To the extent fixed assets included in those stores identified for closure could be utilized in other continuing stores, the Company transferred those assets to continuing stores. The Company planned to scrap fixed assets that could not be transferred, and accordingly, the write-down was calculated based upon an estimated scrap value. This fourth quarter charge of \$215 million was reduced by approximately \$2 million in fiscal 1998 due to changes in estimates of pension withdrawal liabilities and fixed asset write-downs from the time the original charge was recorded. The net charge of \$213 million is included in "Store operating, general and administrative expense" in the Company's Statements of Consolidated Operations for fiscal 1998.

In addition to the charges recorded in fiscal 1998, there were other charges related to the plan which could not be accrued for at February 27, 1999 because they did not meet the criteria for accrual under EITF 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit Activity (Including Certain Costs Incurred in a Restructuring)". Such costs have been expensed as incurred as the plan was being executed. During fiscal 1999, the Company recorded an additional pretax charge of \$11 million for severance related to the 132 stores. No additional charges were recorded during fiscal 2000.

In April 1999, the Company announced that it had reached definitive agreements to sell 14 stores in the Atlanta, Georgia market, two of which were previously included in the Company's store exit program. In conjunction with the sale, the Company decided to exit the entire Atlanta market and close the remaining 22 stores, as well as the distribution center and administrative office. Accordingly, at the time of the announcement, the Company recorded a fiscal 1999 first quarter net pretax charge of approximately \$5 million. This charge was comprised of severance of \$6 million and future lease commitments of \$11 million, partially offset by a \$12 million gain related to the disposition of fixed and intangible assets. The net charge is included in "Store operating, general and administrative expense" in the Company's Statements of Consolidated Operations for fiscal 1999.

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

The Company paid \$28 million of the total severance charges from the time of the original charges through the end of fiscal 2000, which resulted from the termination of approximately 3,400 employees. The remaining severance liability relates to future obligations for early withdrawals from multi-employer union pension plans.

The following reconciliation summarizes the activity related to the aforementioned charges since their initial recording:

	Store Occupancy	Fixed Assets	Severance and Benefits	Facilities Occupancy	Total
Original Charge	\$ 113,732	\$ 93,355	\$ 15,102	\$ 4,018	\$ 226,207
Addition ⁽¹⁾	1,900	—	—	—	1,900
Utilization	(1,100)	(92,639)	(3,794)	(311)	(97,844)
Adjustment ⁽²⁾	—	(716)	(1,242)	331	(1,627)
Reserve Balance at					
Feb. 27, 1999	114,532	—	10,066	4,038	128,636
Addition ⁽¹⁾	15,730	—	17,060	3,188	35,978
Utilization	(4,614) ⁽³⁾	(295)	(19,626)	(3,659)	(28,194)
Adjustment ⁽²⁾	(22,195)	295	—	—	(21,900)
Reserve Balance at					
Feb. 26, 2000	103,453	—	7,500	3,567	114,520
Addition ⁽¹⁾	5,062	—	—	—	5,062
Utilization ⁽⁴⁾	(25,654)	—	(4,779)	(463)	(30,896)
Adjustment ⁽²⁾	—	—	—	(3,104)	(3,104)
Reserve Balance at					
Feb. 24, 2001	<u>\$ 82,861</u>	<u>\$ —</u>	<u>\$ 2,721</u>	<u>\$ —</u>	<u>\$ 85,582</u>

- (1) The additions to store occupancy of \$1.9 million and \$5.1 million during fiscal 1998 and 2000 represent the present value of accrued interest related to lease obligations. The fiscal 1999 addition represents an increase to the store occupancy reserve for the present value of accrued interest of \$7.4 million, additional severance cost of \$11.5 million and the cost of exiting the Atlanta market (including store occupancy of \$8.3 million, severance of \$5.6 million and facilities costs of \$3.2 million).
- (2) At each balance sheet date, Management assesses the adequacy of the reserve balance to determine if any adjustments are required as a result of changes in circumstances and/or estimates. As a result, in fiscal 1998, the Company recorded an adjustment to severance and benefits related to a change in the estimate of the calculated pension withdrawal liability. In the third quarter of fiscal 1999, the Company recorded a net reduction in "Store operating, general and administrative expense" of \$21.9 million to reverse a portion of the \$215 million restructuring charge recorded in fiscal 1998. This amount represents a \$22.2 million reduction in "Store operating, general and administrative expense" for lower store occupancy costs resulting primarily from earlier than anticipated lease terminations and subleases. The credit is partially offset by \$0.3 million of additional fixed asset write-downs resulting from lower than anticipated proceeds from the sale of fixed assets. In fiscal 2000, the Company recorded a net reduction in "Store operating, general and administrative expense" of \$3.1 million to reverse a portion of the \$215 million restructuring charge recorded in fiscal 1998. The reversal is primarily a result of a change in estimate resulting from the sale of one of the Company's warehouses sold during the first quarter of fiscal 2000.
- (3) Store occupancy utilization for fiscal 1999 is comprised of \$29.6 million of lease and other occupancy payments for the period, net of \$25.0 million of net proceeds on the assignment of leases which was considered in determining the original charge recorded during fiscal 1998.
- (4) Store occupancy utilization of \$25.7 million and facilities occupancy of \$0.5 million represent lease and other occupancy payments made during fiscal 2000.

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

Based upon current available information, Management evaluated the reserve balance of \$85.6 million as of February 24, 2001 and has concluded that it is adequate. The Company will continue to monitor the status of the vacant properties and further adjustments to the reserve balance may be recorded in the future, if necessary.

At February 24, 2001, approximately \$14 million of the reserve is included in "Other accruals" and the remaining amount is included in "Other non-current liabilities" in the Consolidated Balance Sheets.

Included in the Statements of Consolidated Operations are the operating results of the 132 underperforming stores (including 31 stores in the Richmond, Virginia market) and the 34 Atlanta stores which the Company has exited. The operating results of these stores are as follows:

	52 Weeks Ended		
	February 24, 2001	February 26, 2000	February 27, 1999
Sales	\$ 678	\$200,208	\$1,069,441
Operating loss	\$ (139)	\$(30,572)	\$ (43,105)

As of the end of fiscal 2000, the Company had closed 165 stores, including 34 stores in the Atlanta, Georgia market and 31 stores in the Richmond, Virginia market.

Note 3 – Inventory

Approximately 12% and 13% of the Company's inventories are valued using the last-in, first-out ("LIFO") method at February 24, 2001 and February 26, 2000, respectively. Such inventories would have been \$18.1 million and \$19.6 million higher at February 24, 2001 and February 26, 2000, respectively, if the retail and first-in, first-out methods were used. The Company recorded a LIFO credit of \$1.5 million in fiscal 2000 compared to LIFO charges of approximately \$0.9 million in 1999 and \$1.0 million in 1998. Liquidation of LIFO layers in the periods reported did not have a significant effect on the results of operations.

Note 4 – Wholesale Franchise Business

The Company serviced 68 franchised stores as of February 24, 2001 and 65 stores as of February 26, 2000. These franchised stores are required to purchase inventory exclusively from the Company which acts as a wholesaler to the franchisees. During fiscal 2000, 1999 and 1998, the Company had wholesale sales to these franchised stores of \$638 million, \$523 million and \$387 million, respectively. A majority of the franchised stores were converted from Company operated supermarkets. The Company subleases the stores and leases the equipment in the stores to the franchisees. The Company also provides merchandising, advertising, accounting and other consultative services to the franchisees for which it receives a nominal fee which mainly represents the reimbursements of costs incurred to provide such services.

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

The Company holds as assets inventory notes collateralized by the inventory in the stores and equipment lease receivables collateralized by the equipment in the stores. The current portion of the inventory notes and equipment leases, net of allowance for doubtful accounts, amounting to approximately \$3.7 million and \$4.1 million, are included in "Accounts receivable" at February 24, 2001 and February 26, 2000, respectively. The long-term portion of the inventory notes and equipment leases, net of allowance for doubtful accounts, amounting to approximately \$55.3 million and \$53.4 million, are included in "Other assets" at February 24, 2001 and February 26, 2000, respectively.

The repayment of the inventory notes and equipment leases are dependent upon positive operating results of the stores. To the extent that the franchisees incur operating losses, the Company establishes an allowance for doubtful accounts. The Company continually assesses the sufficiency of the allowance on a store by store basis based upon the operating results and the related collateral underlying the amounts due from the franchisees. In the event of default by a franchisee, the Company reserves the option to reacquire the inventory and equipment at the store and operate the franchise as a corporate owned store.

Included below are the amounts due to the Company for the next five years and thereafter from the franchised stores for equipment leases and inventory notes.

<u>Fiscal</u>	
2001	\$ 7,715
2002	10,361
2003	9,777
2004	9,636
2005	9,557
2006 and thereafter	<u>35,909</u>
	82,955
Less interest portion	<u>(23,995)</u>
Due from franchise business	<u>\$ 58,960</u>

For fiscal 2000, 1999 and 1998, approximately \$15 million, \$18 million and \$8 million, respectively, of the franchise business notes relate to equipment leases which were non-cash transactions and, accordingly, have been excluded from the Statements of Consolidated Cash Flows.

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

Note 5 – Indebtedness

Debt consists of the following:

	February 24, 2001	February 26, 2000
9.375% Notes, due August 1, 2039	\$200,000	\$200,000
7.75% Notes, due April 15, 2007	300,000	300,000
7.70% Senior Notes, due January 15, 2004	200,000	200,000
7.78% Notes, due November 1, 2000	—	75,000
Mortgages and Other Notes, due 2001 through 2003 (average interest rates at year end of 8.38% and 7.12%, respectively)	28,658	8,023
U.S. Bank Borrowings at 6.55% and 6.35%, respectively	194,607	87,000
Less unamortized discount on 7.75% Notes	<u>(1,749)</u>	<u>(1,966)</u>
	921,516	868,057
Less current portion	<u>(6,195)</u>	<u>(2,382)</u>
Long-term debt	<u>\$915,321</u>	<u>\$865,675</u>

At February 24, 2001, the Company had an unsecured five year \$498 million revolving credit agreement (the “Unsecured Credit Agreement”) which was to expire on June 10, 2002 with a syndicate of banks, enabling it to borrow funds on a revolving basis sufficient to refinance short-term borrowings. This agreement was subsequently replaced by a secured revolving credit agreement described below. As of February 24, 2001, the Unsecured Credit Agreement was comprised of the U.S. credit agreement amounting to \$415 million and the Canadian credit agreement amounting to C\$121 million (U.S. \$83 million). As of February 24, 2001, the Company had \$190 million of borrowings under the Unsecured Credit Agreement consisting of \$145 million under the U.S. credit agreement and C\$69 million (U.S. \$45 million) under the Canadian credit agreement. This compared to borrowings of \$60 million under the U.S. credit agreement and no borrowings under the Canadian credit agreement at February 26, 2000. Accordingly, as of February 24, 2001, the Company had \$308 million available under the Unsecured Credit Agreement consisting of \$270 million under the U.S. credit agreement and C\$53 million (U.S. \$38 million) under the Canadian credit agreement. This compared to availability of \$439 million at February 26, 2000 consisting of \$405 million under the U.S. credit agreement and C\$50 million (U.S. \$34 million) under the Canadian credit agreement. The Company paid a facility fee of 0.375% per annum on the total commitment of the U.S. and Canadian revolving credit facilities and 1% on the borrowed amount.

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

On February 23, 2001, the Company executed an agreement with a syndicate of banks to replace the Unsecured Credit Agreement with a \$425 million secured revolving credit agreement (the "Secured Credit Agreement") expiring December 31, 2003. The outstanding borrowings under the Unsecured Credit Agreement were refinanced with this new facility. This agreement is secured primarily by inventory and company-owned real estate which, at February 24, 2001, had a net book value of \$658 million and \$88 million, respectively. The Secured Credit Agreement was comprised of a U.S. credit agreement amounting to \$340 million and a Canadian credit agreement amounting to C\$131 million (U.S. \$85 million). Based on the Company's current debt rating, borrowings under the agreement bear interest on spreads to LIBOR and Prime, and at February 24, 2001 the borrowing rate under the new agreement was 8.03%. Upon execution of the Secured Credit Agreement, the syndicate was instructed to fund the Company in an amount sufficient to repay the entire outstanding balance on the Unsecured Credit Agreement. Such funding took place on February 28, 2001. If the repayment of the Unsecured Credit Agreement had been funded on February 24, 2001, after reducing availability for outstanding letters of credit, availability under the new facility would have been \$183 million.

On November 1, 2000, the Company's Canadian subsidiary, The Great Atlantic & Pacific Company of Canada, Limited, repaid its outstanding \$75 million 5 year Notes denominated in U.S. dollars. The repayment of these Notes was funded by the Unsecured Credit Agreement at an average rate of 6.55%.

As of February 24, 2001 and February 26, 2000, the Company had borrowings under uncommitted lines of credit of \$5 million and \$27 million, respectively.

As of February 24, 2001, the Company has outstanding a total of \$500 million of unsecured, non-callable public debt securities in the form of \$200 million 7.70% Notes due January 15, 2004 and \$300 million 7.75% Notes due April 15, 2007. The Company also has outstanding \$200 million unsecured, public debt securities in the form of 9.375% Notes due August 1, 2039 which are callable beginning on August 11, 2004.

During fiscal 2000, the Company entered into an agreement which provides financing for software purchases and hardware leases primarily relating to the Company's Great Renewal – Phase II supply chain and business process initiative ("GR II"). Presently, software purchases and hardware leases will be financed at an effective rate of 8.49% per annum. Software purchases and hardware leases will occur from time to time over the next four years. The Company currently makes equal monthly payments of \$1.4 million. Such payments are subject to change based upon the timing and amount of such funding. As of February 24, 2001, \$26.8 million was funded for software purchases and hardware with a total fair market value of \$10.7 million had been leased to the Company.

The Company's loan agreements and certain of its notes contain various financial covenants which require, among other things, minimum fixed charge coverage and maximum levels of leverage and capital expenditures. During the 4th quarter of fiscal 2000 the Company negotiated the aforementioned Secured Credit Agreement to replace its prior facility. This agreement includes covenants, terms and conditions which reflect the Company's current operating performance and capital programs. At February 24, 2001, the Company was in compliance with the covenants on the notes and the Secured Credit Agreement.

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

The net book value of real estate pledged as collateral for all mortgage loans amounted to approximately \$4.5 million at February 24, 2001 and \$8.8 million at February 26, 2000.

The U.S. bank borrowings of \$195 million and \$87 million are classified as non-current as of February 24, 2001 and February 26, 2000, respectively, as the Company has the ability and intent to refinance these borrowings on a long-term basis.

The Company has filed two Shelf Registration Statements dated January 23, 1998 and June 23, 1999, allowing it to offer up to \$350 million of debt and equity securities as of February 24, 2001 at terms determined by market conditions at the time of sale.

Maturities for the next five fiscal years and thereafter are: 2001 – \$6.2 million; 2002 – \$6.0 million; 2003 – \$400.5 million; 2004 – \$5.9 million; 2005 – \$2.3 million; 2006 and thereafter – \$502.4 million. Interest payments on indebtedness were approximately \$80 million for fiscal 2000, \$66 million for fiscal 1999 and \$56 million for fiscal 1998.

Note 6 – Fair Value of Financial Instruments

The estimated fair values of the Company's indebtedness are as follows:

	February 24, 2001		February 26, 2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
9.375% Notes, due August 1, 2039	\$200,000	\$161,280	\$200,000	\$175,000
7.75% Notes, due April 15, 2007	298,251	217,723	298,034	270,094
7.70% Senior Notes, due January 15, 2004	200,000	160,000	200,000	188,250
7.78% Notes, due November 1, 2000	—	—	75,000	74,438
Mortgages and Other Notes, due 2001 through 2003	28,658	28,658	8,023	8,023
U.S. Bank Borrowings	194,607	194,607	87,000	87,000
Total Indebtedness	<u>\$921,516</u>	<u>\$762,268</u>	<u>\$868,057</u>	<u>\$802,805</u>

Fair value for the public debt securities is based on quoted market prices. As of February 24, 2001 and February 26, 2000, the carrying values of cash and short-term investments, accounts receivable and accounts payable approximated fair values due to the short-term maturities of these instruments.

As of the end of fiscal 2000, the Company holds equity securities of both common and cumulative preferred stock in Isosceles PLC, which were written-off in their entirety during fiscal 1992. There are no quoted market prices for these securities and it is not practicable, considering the materiality of these securities to the Company, to obtain an estimate of their fair value. The Company believes that the fair value for these securities is zero based upon Isosceles' current and prior years' results.

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

Note 7 – Lease Obligations

The Company operates primarily in leased facilities. Lease terms generally range up to twenty-five years for store leases and thirty years for other leased facilities, with options to renew for additional periods. The majority of the leases contain escalation clauses relating to real estate tax increases and certain store leases provide for increases in rentals when sales exceed specified levels. In addition, the Company also leases some store equipment and trucks.

The Consolidated Balance Sheets include the following:

	February 24, 2001	February 26, 2000
Real property leased under capital leases	\$205,409	\$207,117
Accumulated amortization	<u>(120,651)</u>	<u>(112,971)</u>
	<u>\$ 84,758</u>	<u>\$ 94,146</u>

During fiscal 2000, 1999 and 1998, the Company entered into new capital leases totaling \$7 million, \$16 million and \$12 million, respectively. These capital lease amounts are non-cash transactions and, accordingly, have been excluded from the Statements of Consolidated Cash Flows. Interest paid as part of capital lease obligations was approximately \$14 million in fiscal 2000, 1999 and 1998.

Rent expense for operating leases consists of:

	52 Weeks Ended		
	February 24, 2001	February 26, 2000	February 27, 1999
Minimum rentals	\$ 219,113	\$194,158	\$193,703
Contingent rentals	<u>3,777</u>	<u>3,780</u>	<u>3,987</u>
	<u>\$ 222,890</u>	<u>\$197,938</u>	<u>\$197,690</u>

Future minimum annual lease payments for capital leases and noncancelable operating leases in effect at February 24, 2001 are shown in the table below. All amounts are exclusive of lease obligations and sublease rentals applicable to facilities for which reserves have previously been established. In addition, the Company subleases 68 stores to the franchise business. Included in the operating lease table below are the rental payments made by the Company partially offset by the rental income received from the franchised stores.

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

<u>Fiscal</u>	Capital Leases Real Property	Operating Leases
2001	\$ 23,524	\$ 238,281
2002	22,843	235,736
2003	20,685	226,964
2004	18,967	220,304
2005	14,880	214,063
2006 and thereafter	<u>139,037</u>	<u>2,241,819</u>
	239,936	<u>\$3,377,167</u>
Less executory costs	<u>(1,248)</u>	
Net minimum rentals	238,688	
Less interest portion	<u>(120,257)</u>	
Present value of net minimum rentals	<u>\$ 118,431</u>	

Note 8 – Income Taxes

The components of (loss) income before income taxes are as follows:

	<u>52 Weeks Ended</u>		
	<u>February 24, 2001</u>	<u>February 26, 2000</u>	<u>February 27, 1999</u>
United States	\$ (74,768)	\$ (77)	\$(244,573)
Canadian	<u>35,095</u>	<u>27,080</u>	<u>15,289</u>
Total	<u>\$(39,673)</u>	<u>\$27,003</u>	<u>\$(229,284)</u>

The (benefit from) provision for income taxes consists of the following:

	<u>52 Weeks Ended</u>		
	<u>February 24, 2001</u>	<u>February 26, 2000</u>	<u>February 27, 1999</u>
Current:			
Federal	\$ —	\$ 872	\$ —
Canadian	531	710	552
State and local	<u>3,000</u>	<u>3,003</u>	<u>3,000</u>
	<u>3,531</u>	<u>4,585</u>	<u>3,552</u>
Deferred:			
Federal	(24,340)	121	(77,489)
Canadian	16,083	12,045	6,806
State and local	(9,879)	(3,908)	(25,786)
Canadian valuation allowance	<u>—</u>	<u>—</u>	<u>(69,203)</u>
	<u>(18,136)</u>	<u>8,258</u>	<u>(165,672)</u>
(Benefit from) provision for income taxes	<u>\$(14,605)</u>	<u>\$12,843</u>	<u>\$(162,120)</u>

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

The deferred income tax (benefit) provision results primarily from the annual change in temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws, net operating tax loss carryforwards and in fiscal 1998, the Canadian valuation allowance.

The Company recorded an income tax benefit amounting to \$14.6 million in fiscal 2000 as compared to an income tax provision of \$12.8 million for fiscal 1999 and an income tax benefit of \$162.1 million for fiscal 1998. The fiscal 1998 benefit of \$162 million includes reversals of the Canadian operations deferred tax valuation allowance. During the first three quarters of fiscal 1998, the Company reversed approximately \$9 million of the Canadian valuation allowance to the extent that the Canadian operations had taxable income. In the fourth quarter of fiscal 1998, the Company concluded that it was more likely than not that the net deferred tax assets related to the Canadian operations would be realized based upon Management's plan to close underperforming stores in Canada (see Note 2 – Store and Facilities Exit Costs), the implementation of certain tax strategies and the continued performance improvements of the Canadian operations. Accordingly, the Company reversed the remaining portion of the Canadian deferred tax valuation allowance amounting to approximately \$60 million. The deferred tax benefit recorded for U.S. operations of approximately \$103 million mainly relates to book and tax differences of the store and facilities exit costs recorded in fiscal 1998.

The Company has elected to permanently reinvest earnings of the Canadian subsidiary. Accordingly, the Company does not provide for taxes associated with Canada's undistributed earnings.

As of February 24, 2001, the Company had net operating tax loss carryforwards of approximately \$62 million from the Canadian operations and \$170 million from the U.S. operations. The Canadian portion of the net operating loss carryforwards will expire between February 2002 and February 2003 and the U.S. portion will expire between February 2019 and February 2020. The Company has assessed its ability to utilize its net operating loss carryforwards and has concluded that no valuation allowance is required.

A reconciliation of income taxes at the 35% federal statutory income tax rate for fiscal 2000, 1999 and 1998 to income taxes as reported is as follows:

	52 Weeks Ended		
	February 24, 2001	February 26, 2000	February 27, 1999
Income taxes computed at federal statutory income tax rate	\$ (13,886)	\$ 9,451	\$ (80,249)
State and local income taxes, net of federal tax benefit	(4,471)	(588)	(14,810)
Tax rate differential relating to Canadian operations	4,330	3,278	2,007
Canadian valuation allowance	—	—	(69,203)
Goodwill and other permanent differences	(578)	702	135
Income taxes, as reported	<u>\$ (14,605)</u>	<u>\$ 12,843</u>	<u>\$ (162,120)</u>

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

Income tax payments, net of refunds, for fiscal 2000, 1999 and 1998 were approximately \$2 million, \$6 million and \$2 million, respectively.

The components of net deferred tax assets (liabilities) are as follows:

	February 24, 2001	February 26, 2000
Current assets:		
Insurance reserves	\$ 27,073	\$ 31,073
Other reserves and accrued benefits	40,435	40,659
Accrued postretirement and postemployment benefits	1,111	1,406
Lease obligations	1,198	1,315
Pension obligations	1,776	4,241
Miscellaneous	4,505	6,612
	<u>76,098</u>	<u>85,306</u>
Current liabilities:		
Inventories	(9,482)	(15,561)
Health and welfare	(9,631)	(9,841)
Miscellaneous	(2,751)	(5,693)
	<u>(21,864)</u>	<u>(31,095)</u>
Deferred income taxes included in prepaid expenses and other current assets	<u>\$ 54,234</u>	<u>\$ 54,211</u>
Non-current assets:		
Isosceles investment	\$ 42,617	\$ 42,617
Alternative minimum tax	7,500	7,500
Fixed assets	—	459
Other reserves	55,583	56,372
Lease obligations	13,193	14,530
Net operating loss carryforwards	107,862	75,417
Insurance reserves	8,400	4,200
Accrued postretirement and postemployment benefits	28,259	31,035
Pension obligations	9,503	4,140
Step rents	19,526	15,098
Miscellaneous	768	7,364
	<u>293,211</u>	<u>258,732</u>
Non-current liabilities:		
Fixed assets	(254,907)	(244,050)
Pension obligations	(23,205)	(20,807)
Miscellaneous	(2,463)	(2,352)
	<u>(280,575)</u>	<u>(267,209)</u>
Net non-current deferred income tax asset (liability)	<u>\$ 12,636</u>	<u>\$ (8,477)</u>

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

The net non-current deferred tax asset and liability is recorded in the Consolidated Balance Sheets as follows:

	February 24, 2001	February 26, 2000
Other assets	\$ 32,995	\$ 49,992
Non-current liability	(20,359)	(58,469)
Net non-current deferred income tax asset (liability)	<u>\$ 12,636</u>	<u>\$ (8,477)</u>

Note 9 – Retirement Plans and Benefits

Defined Benefit Plans

The Company provides retirement benefits to certain non-union and union employees under various defined benefit plans. The Company's defined benefit pension plans are non-contributory and benefits under these plans are generally determined based upon years of service and, for salaried employees, compensation. The Company funds these plans in amounts consistent with the statutory funding requirements.

During fiscal 1998, the Company adopted SFAS No. 132, "Employers' Disclosure about Pension and Postretirement Benefits" ("SFAS 132"). SFAS 132 standardizes the disclosure requirements for pension and other postretirement benefits. This Statement addresses disclosure only. It does not address expense recognition or liability measurement. Accordingly, there was no effect on financial position or net income as a result of adopting SFAS 132.

The components of net pension cost are as follows:

	52 Weeks Ended		
	February 24, 2001	February 26, 2000	February 27, 1999
Service cost	\$ 8,017	\$ 16,153	\$ 14,014
Interest cost	19,192	26,300	25,872
Expected return on plan assets	(25,429)	(34,890)	(32,040)
Amortization of unrecognized net asset	(1,255)	(1,194)	(1,184)
Amortization of unrecognized net prior service cost	910	1,240	1,237
Amortization of unrecognized net actuarial (gain) loss	(1,432)	730	506
Curtailments and settlements	668	1,205	863
Net pension cost	<u>\$ 671</u>	<u>\$ 9,544</u>	<u>\$ 9,268</u>

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

The Company's defined benefit pension plans are accounted for on a calendar year basis. The majority of plan assets is invested in listed stocks and bonds. The following tables set forth the change in benefit obligations and change in plan assets for fiscal 2000 and 1999 for the Company's defined benefit plans:

<u>Change in Benefit Obligation</u>	<u>2000</u>	<u>1999</u>
Benefit obligation – beginning of year	\$393,614	\$423,156
Service cost	8,017	16,153
Interest cost	19,192	26,300
Actuarial loss (gain)	12,467	(60,065)
Benefits paid	(23,399)	(26,195)
Amendments	29	1,721
Curtailments and settlements	(122,633)	1,182
Effect of exchange rate	(12,668)	11,362
Benefit obligation – end of year	<u>\$274,619</u>	<u>\$393,614</u>

<u>Change in Plan Assets</u>	<u>2000</u>	<u>1999</u>
Plan assets at fair value – beginning of year	\$464,438	\$458,663
Actual return on plan assets	53,441	9,023
Company contributions	5,218	9,865
Benefits paid	(23,399)	(26,195)
Curtailments and settlements	(136,981)	–
Effect of exchange rate	(15,937)	13,082
Plan assets at fair value – end of year	<u>\$346,780</u>	<u>\$464,438</u>

Amounts recognized in the Company's Consolidated Balance Sheets consist of the following:

	<u>2000</u>	<u>1999</u>
Plan assets in excess of projected benefit obligation	\$ 72,161	\$ 70,824
Unrecognized net transition asset	(1,881)	(3,013)
Unrecognized prior service cost	2,419	6,262
Unrecognized net actuarial gain	(56,231)	(43,891)
Interim contributions between calendar and fiscal year end	268	–
Total recognized in the Consolidated Balance Sheets	<u>\$ 16,736</u>	<u>\$ 30,182</u>
Prepaid benefit cost	\$ 44,592	\$ 56,529
Accrued benefit liability	(28,036)	(31,504)
Intangible asset	116	236
Accumulated other comprehensive loss	38	2,729
Tax benefit	26	2,192
Total recognized in the Consolidated Balance Sheets	<u>\$ 16,736</u>	<u>\$ 30,182</u>

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

Plans with accumulated benefit obligation in excess of plan assets consist of the following:

	2000	1999
Accumulated benefit obligation	\$ 21,998	\$ 92,973
Projected benefit obligation	\$ 22,705	\$ 97,114
Plan assets at fair value	\$ 275	\$ 69,480

The prepaid pension asset is included in "Other assets" while the pension liability is included in "Accrued salaries, wages and benefits" and "Other non-current liabilities".

At February 24, 2001 and February 26, 2000, the Company's additional minimum pension liability for its defined benefit plans was in excess of the unrecognized prior service costs and net transition obligation and accordingly, less than \$0.1 million and \$2.7 million, each net of income tax benefit, was reflected as a reduction to stockholders' equity, respectively.

During the year ended February 25, 1995, the Company's Canadian subsidiary and the United Food & Commercial Workers International Union, Locals 175 and 633, entered into an agreement resulting in the amalgamation of three of the Company's Canadian defined benefit pension plans with the Canadian Commercial Workers Industry Pension Plan ("CCWIPP"), retroactive to July 1, 1994. The agreement was subject to the approval of the CCWIPP trustees and the appropriate regulatory bodies. During the first quarter of fiscal 2000, the Company received final approval of the agreement. Under the terms of this agreement and as reflected in the above tables, CCWIPP assumed the assets and defined benefit liabilities of the three pension plans. Further, the Company is required to make defined contributions to CCWIPP based upon hours worked by employees who are members of CCWIPP and to the extent assets transferred exceeded liabilities assumed, the Company received a funding holiday by CCWIPP for such defined contributions. As a result of this transfer, during the first quarter of fiscal 2000, the Company recorded a \$0.4 million net expense and a \$2.7 million adjustment to the minimum pension liability.

Actuarial assumptions used to determine year-end plan status are as follows:

	2000		1999	
	U.S.	Canada	U.S.	Canada
Weighted average discount rate	7.50%	7.00%	7.75%	7.50%
Weighted average rate of compensation increase	4.50%	4.00%	4.75%	4.00%
Expected long-term rate of return on plan assets	7.50-8.50%	8.50%	8.75%	8.40%

The impact of the changes in the actuarial assumptions has been reflected in the funded status of the pension plans and the Company believes that such changes will not have a material effect on net pension cost for fiscal 2001.

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

Defined Contribution Plans

The Company maintains a defined contribution retirement plan to which the Company contributes an amount equal to 4% of eligible participants' salaries and a savings plan to which eligible participants may contribute a percentage of eligible salary. The Company contributes to the savings plan based on specified percentages of the participants' eligible contributions. Participants become fully vested in the Company's contributions after 5 years of service. The Company's contributions charged to operations for both plans were approximately \$11.3 million, \$10.8 million and \$10.9 million in fiscal years 2000, 1999 and 1998, respectively.

Multi-employer Union Pension Plans

The Company participates in various multi-employer union pension plans which are administered jointly by management and union representatives and which sponsor most full-time and certain part-time union employees who are not covered by the Company's other pension plans. The pension expense for these plans approximated \$35.3 million, \$31.5 million and \$34.1 million in fiscal 2000, 1999 and 1998, respectively. The Company could, under certain circumstances, be liable for unfunded vested benefits or other expenses of jointly administered union/management plans. At this time, the Company has not established any liabilities for future withdrawals because such withdrawals from these plans are not probable.

Postretirement Benefits

The Company provides postretirement health care and life benefits to certain union and non-union employees. The Company recognizes the cost of providing postretirement benefits during employees' active service period.

The components of net postretirement benefits cost are as follows:

	52 Weeks Ended		
	February 24, 2001	February 26, 2000	February 27, 1999
Service cost	\$ 487	\$ 548	\$ 1,666
Interest cost	2,060	1,977	3,464
Prior service cost	(1,347)	(1,347)	(263)
Amortization of (gain) loss	(692)	(509)	27
Net postretirement benefits cost	<u>\$ 508</u>	<u>\$ 669</u>	<u>\$ 4,894</u>

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

The unfunded status of the plans is as follows:

	52 Weeks Ended		
	February 24, 2001	February 26, 2000	February 27, 1999
Unfunded accumulated benefit obligation			
at beginning of year	\$ 28,190	\$ 36,690	\$ 48,980
Service cost	487	548	1,666
Interest cost	2,060	1,977	3,464
Benefits paid	(1,937)	(1,782)	(2,790)
Actuarial loss (gain)	6,131	(9,533)	1,837
Plan amendment	—	—	(16,162)
Foreign exchange	(1,218)	290	(305)
Accumulated benefit obligation at end of year	33,713	28,190	36,690
Unrecognized net gain from experience differences	2,658	9,191	221
Unrecognized prior service cost	13,715	14,552	15,899
Accrued postretirement benefit costs at end of year	<u>\$ 50,086</u>	<u>\$ 51,933</u>	<u>\$ 52,810</u>
Assumed discount rate:			
U.S.	7.50%	7.75%	6.50%
Canada	7.00%	7.50%	6.50%

The assumed rate of future increase in health care benefit cost for fiscal 2000 was 8.75% and is expected to decline to 5.0% by the year 2020 and remain at that level thereafter. The effect of a 1% change in the assumed health care cost trend rate for each future year on the net postretirement health care cost would either increase by \$0.3 million or decrease by \$0.2 million, while the accumulated postretirement benefit obligation would either increase by \$3.0 million or decrease by \$2.4 million.

Postemployment Benefits

The Company accrues costs for preretirement, postemployment benefits provided to former or inactive employees and recognizes an obligation for these benefits. The costs of these benefits have been included in operations for each of the three fiscal years in the period ended February 24, 2001. As of February 24, 2001 and February 26, 2000, the Company has a liability reflected in the Consolidated Balance Sheets of \$23.6 million and \$24.8 million, respectively, related to such benefits.

Note 10 – Stock Options

At February 24, 2001, the Company has four fixed stock-based compensation plans. The Company applies the principles of APB 25 for stock options and FASB Interpretation No. 28 for Stock Appreciation Rights (“SAR’s”). SAR’s allow the holder, in lieu of purchasing stock, to receive cash in an amount equal to the excess of the fair market value of common stock on the date of exercise over the option price. Most of the options and SAR’s vest over a four year period on the anniversary date of issuance, while some options vest immediately.

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

Effective July 13, 1999, the Board of Directors and stockholders approved the 1998 Long Term Incentive and Share Award Plan (the "1998 Plan") for its officers and key employees. The 1998 Plan provides for the granting of 5,000,000 shares as options, SAR's or stock awards.

The Company's 1994 Stock Option Plan (the "1994 Plan") for officers and key employees provided for the granting of 1,500,000 shares as either options or SAR's. The 1984 Stock Option Plan for officers and key employees, which expired on February 1, 1994, provided for the granting of 1,500,000 shares and was amended as of July 10, 1990 to increase by 1,500,000 the number of options available for grant as either options or SAR's.

The 1994 Stock Option Plan for Board of Directors provides for the granting of 100,000 stock options at the fair market value of the Company's common stock at the date of grant. Options granted under this plan totaled 8,000 in fiscal 2000, 3,600 in fiscal 1999 and 1,600 in fiscal 1998.

Options and SAR's issued under all of the Company's plans are granted at the fair market value of the Company's common stock at the date of grant. In fiscal 2000, 1,490,550 options were granted under the 1998 Plan. There were no SAR's granted during fiscal 2000.

The Company accounts for stock options using the intrinsic value-based method prescribed by APB 25. Had compensation cost for the Company's stock options been determined based on the fair value at the grant dates for awards under those plans consistent with the fair value methods prescribed by SFAS 123, the Company's net (loss) income and (loss) income per share would have been reduced to the pro forma amounts indicated below:

	52 Weeks Ended		
	February 24, 2001	February 26, 2000	February 27, 1999
Net (loss) income:			
As reported	\$ (25,068)	\$ 14,160	\$ (67,164)
Pro forma	\$ (29,211)	\$ 11,275	\$ (68,987)
Net (loss) income per share – basic and diluted:			
As reported	\$ (0.65)	\$ 0.37	\$ (1.75)
Pro forma	\$ (0.76)	\$ 0.29	\$ (1.80)

The pro forma effect on net (loss) income and (loss) income per share may not be representative of the pro forma effect in future years because it includes compensation cost on a straight-line basis over the vesting periods of the grants and does not take into consideration the pro forma compensation costs for grants made prior to fiscal 1995.

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

The fair value of the fiscal 2000, 1999 and 1998 option grants was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	52 Weeks Ended		
	February 24, 2001	February 26, 2000	February 27, 1999
Expected life	7 years	7 years	7 years
Volatility	60%	30%	30%
Dividend yield range	0%-4.60%	1.08%-1.42%	1.23%-1.63%
Risk-free interest rate range	4.94%-6.69%	5.37%-6.78%	5.14%-5.63%

For fiscal 2000, no expense was recorded with respect to SAR's due to the decline in the Company's stock price. For fiscal 1999, the Company recognized a \$3.1 million credit to reverse previously accrued SAR compensation charges due to the decline in the Company's stock price. The Company recognized compensation expense of \$0.6 million in fiscal 1998, with respect to SAR's. There was no compensation expense recognized for the other fixed plans since the exercise price of the stock options equaled the fair market value of the Company's common stock on the date of grant.

A summary of option transactions is as follows:

Officers, Key Employees and Directors

	Shares	Weighted Average Exercise Price
Outstanding February 29, 1998	949,950	\$ 27.78
Granted	897,600	31.32
Cancelled or expired	(10,000)	27.88
Exercised	(37,750)	27.88
Outstanding February 27, 1999	1,799,800	\$ 29.55
Granted	491,650	32.35
Cancelled or expired	(211,000)	29.69
Exercised	(56,500)	26.64
Outstanding February 26, 2000	2,023,950	\$ 30.30
Granted	1,498,550	16.11
Cancelled or expired	(277,836)	26.88
Outstanding February 24, 2001	<u>3,244,664</u>	<u>\$ 24.04</u>
Exercisable at:		
February 26, 2000	811,450	\$ 28.61
February 24, 2001	1,046,205	\$ 29.55

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

Following are the weighted average fair values of options granted during the years ended:

February 27, 1999	\$11.72
February 26, 2000	\$12.64
February 24, 2001	\$ 8.80

A summary of stock options outstanding and exercisable at February 24, 2001 is as follows:

Average Range of Exercise Prices	Options Outstanding at 2/24/01	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable at 2/24/01	Weighted Average Exercise Price
\$ 7.44 – \$10.87	277,000	9.8 years	\$ 7.99	–	–
\$15.78 – \$18.88	1,163,600	9.1 years	\$17.95	–	–
\$21.50 – \$25.88	26,000	4.6 years	\$23.40	26,000	\$23.40
\$26.50 – \$27.44	61,400	5.8 years	\$27.08	48,900	\$27.05
\$27.63 – \$27.75	116,000	5.4 years	\$27.73	91,000	\$27.73
\$27.88	366,500	4.3 years	\$27.88	366,500	\$27.88
\$28.25 – \$30.00	38,000	8.8 years	\$28.91	9,666	\$28.93
\$30.25 – \$31.75	788,250	7.8 years	\$31.41	399,375	\$31.41
\$32.88 – \$37.00	407,914	8.1 years	\$32.69	104,764	\$32.69
	<u>3,244,664</u>			<u>1,046,205</u>	

A summary of SAR transactions is as follows:

Officers and Key Employees

	Shares	Price Range Per Share
Outstanding February 29, 1998	1,657,988	\$ 21.88 – \$65.13
Cancelled or expired	(388,625)	27.45 – 46.38
Exercised	<u>(89,644)</u>	<u>21.88 – 27.25</u>
Outstanding February 27, 1999	1,179,719	\$ 21.88 – \$65.13
Cancelled or expired	(212,250)	23.38 – 65.13
Exercised	<u>(84,707)</u>	<u>21.88 – 27.25</u>
Outstanding February 26, 2000	882,762	\$ 21.88 – \$52.38
Cancelled or expired	<u>(375,000)</u>	<u>24.75 – 52.38</u>
Outstanding February 24, 2001	<u>507,762</u>	<u>\$ 21.88 – \$45.38</u>
Exercisable at:		
February 26, 2000	866,137	\$ 21.88 – \$52.38
February 24, 2001	506,512	\$ 21.88 – \$45.38

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

Note 11 – Litigation

On January 13, 2000, the Attorney General of the State of New York filed an action in New York Supreme Court, County of New York, alleging that the Company and its subsidiary Shopwell, Inc., together with the Company's outside delivery service Chelsea Trucking, Inc., violated New York law by failing to pay minimum and overtime wages to individuals who deliver groceries at a Food Emporium store in New York City. The complaint seeks a determination of violation of law, an unspecified amount of restitution, an injunction and costs. A purported class action lawsuit was filed on January 13, 2000 in the federal district court for the Southern District of New York against the Company, Shopwell, Inc. and others by Faty Ansoumana and others. The federal court action makes similar minimum wage and overtime pay allegations under both federal and state law and extends the allegations to various stores operated by the Company. In December 2000, the plaintiffs in the federal court action accepted a \$3 million offer of judgment made by the Company, such offer being conditional upon the federal court entering an order certifying a class consisting of the individuals who are the subject of a pending motion by the plaintiffs for class certification. Such amount has been accrued for and is included in "Other accruals" on the Company's Consolidated Balance Sheets. In the event the Court enters the class certification order, this judgment will also resolve all related claims of the New York Attorney General.

The Company is subject to various other legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. While the outcome of these claims cannot be predicted with certainty, management does not believe that the outcome of any of these legal matters will have a material adverse effect on the Company's consolidated results of operations, financial position or cash flows.

Note 12 – Supply Chain and Business Process Initiative – Great Renewal – Phase II

On March 13, 2000, the Company announced GR II, an initiative to develop a state-of-the-art supply and business management infrastructure. As of February 24, 2001, the Company has committed to, but has not yet incurred, approximately \$23 million of software purchases and consulting services, which will be payable in fiscal 2001.

During fiscal 2000, an agreement was entered into which provides financing for software purchases and hardware leases primarily relating to GR II. Presently, software purchases and hardware leases will be financed at an effective rate of 8.49% per annum. Software purchases and hardware leases will occur from time to time over the next four years. Equal monthly payments of \$1.4 million are currently being made. Such payments are subject to change based upon the timing and amount of such funding. As of February 24, 2001, \$26.8 million was funded for software purchases and hardware with a total fair market value of \$10.7 million had been leased. The leasing of the hardware under this agreement is being accounted for as an operating lease in accordance with SFAS No. 13, "Accounting for Leases".

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

Note 13 – Operating Segments

During the fourth quarter of fiscal 1998, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). This statement establishes standards for reporting information about operating segments in annual financial statements and selected information in interim financial statements. It also establishes standards for related disclosures about products and services and geographic areas. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is the Chief Executive Officer.

The Company currently operates in three reportable segments: United States Retail, Canada Retail and Canada Wholesale. The retail segments are comprised of retail supermarkets in the United States and Canada, while the Wholesale segment is comprised of the Company's Canadian operation that serves as exclusive wholesaler to the Company's franchised stores and serves as wholesaler to certain third party retailers.

The accounting policies for the segments are the same as those described in the summary of significant accounting policies. The Company measures segment performance based upon operating profit.

Information on segments is as follows:

	52 Weeks Ended		
	February 24, 2001	February 26, 2000	February 27, 1999
Sales			
U.S. Retail	\$ 8,247,224	\$ 7,981,134	\$ 8,276,493
Canada Retail	1,745,129	1,646,712	1,515,602
Canada Wholesale	630,513	523,488	387,263
Total Company	<u>\$ 10,622,866</u>	<u>\$ 10,151,334</u>	<u>\$ 10,179,358</u>
Depreciation and amortization			
U.S. Retail	\$ 223,550	\$ 204,975	\$ 209,656
Canada Retail	32,221	27,413	23,990
Canada Wholesale	—	324	17
Total Company	<u>\$ 255,771</u>	<u>\$ 232,712</u>	<u>\$ 233,663</u>
Income (loss) from operations			
U.S. Retail	\$ 6,866	\$ 69,703	\$ (186,558)
Canada Retail	19,676	17,029	11,317
Canada Wholesale	23,651	18,098	10,850
Total Company	<u>\$ 50,193</u>	<u>\$ 104,830</u>	<u>\$ (164,391)</u>

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

	52 Weeks Ended		
	February 24, 2001	February 26, 2000	February 27, 1999
Interest expense			
U.S. Retail	\$ (81,684)	\$ (70,097)	\$ (58,389)
Canada Retail	(11,436)	(11,504)	(11,485)
Canada Wholesale	(2,968)	(2,444)	(1,623)
Total Company	<u>\$ (96,088)</u>	<u>\$ (84,045)</u>	<u>\$ (71,497)</u>
Interest income			
U.S. Retail	\$ 50	\$ 317	\$ 876
Canada Retail	2,099	2,521	2,686
Canada Wholesale	4,073	3,380	3,042
Total Company	<u>\$ 6,222</u>	<u>\$ 6,218</u>	<u>\$ 6,604</u>
(Loss) income before income taxes			
U.S. Retail	\$ (74,768)	\$ (77)	\$ (244,071)
Canada Retail	10,339	8,046	2,518
Canada Wholesale	24,756	19,034	12,269
Total Company	<u>\$ (39,673)</u>	<u>\$ 27,003</u>	<u>\$ (229,284)</u>
Capital expenditures			
U.S. Retail	\$ 356,850	\$ 416,863	\$ 376,688
Canada Retail	58,992	61,444	61,657
Canada Wholesale	—	1,265	—
Total Company	<u>\$ 415,842</u>	<u>\$ 479,572</u>	<u>\$ 438,345</u>
Total assets			
U.S. Retail	\$ 2,679,217	\$ 2,684,624	\$ 2,601,113
Canada Retail	548,801	567,573	504,926
Canada Wholesale	81,785	83,328	54,775
Total Company	<u>\$ 3,309,803</u>	<u>\$ 3,335,525</u>	<u>\$ 3,160,814</u>
Long-lived assets			
United States	\$ 1,637,036	\$ 1,652,094	\$ 1,528,249
Canada	287,211	265,818	204,687
Total Company	<u>\$ 1,924,247</u>	<u>\$ 1,917,912</u>	<u>\$ 1,732,936</u>

Note 14 – Sale-Leaseback Transaction

On December 29, 2000 and February 16, 2001, the Company sold 12 properties and simultaneously leased them back from the purchaser. The properties subject to this sale had a carrying value of approximately \$68 million. Net proceeds received by the Company related to this transaction amounted to approximately \$113 million. Of the 12 properties sold, 11 were sold for a profit resulting in a gain after deducting expenses of approximately \$46 million. This gain will be deferred and amortized over the life of the respective leases as a reduction of rental expense. One property in the aforementioned transaction

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

was sold at a loss of approximately \$3 million after expenses. Since the fair value of this property was less than its carrying value, the Company recognized this loss in full during fiscal 2000. During fiscal 2001, the Company has or expects to enter into similar transactions with six other owned properties. During fiscal 2000, the Company recognized a loss of approximately \$4 million related to one of these additional sale-leaseback properties which has occurred since the carrying value of such property exceeded its fair value.

The resulting leases of the 12 properties sold in fiscal 2000 have terms of 20 years, with options to renew for additional periods, and are being accounted for as operating leases in accordance with SFAS No. 13, "Accounting for Leases". Future minimum lease payments for these operating leases are as follows:

<u>Fiscal</u>	
2001	\$ 12,840
2002	12,840
2003	12,840
2004	12,840
2005	12,840
2006 and thereafter	<u>204,963</u>
Total	<u>\$269,163</u>

Note 15 – Environmental Liability

During the first quarter of fiscal 2000, the Company became aware of environmental issues at one of its non-retail real estate locations. The Company obtained an environmental remediation report to enable it to assess the potential environmental liability related to this property. Factors considered in determining the liability included, among others, whether the Company had been designated as a potentially responsible party, the number of potentially responsible parties designated at the site, the stage of the proceedings and the available environmental technology.

During the first quarter of fiscal 2000, the Company assessed the likelihood that a loss had been incurred at this site as probable and based on findings included in remediation reports and discussion with legal counsel, estimated the potential loss to be approximately \$3 million on an undiscounted basis. Accordingly, such amount was accrued at that time. At each balance sheet date the Company assesses its exposure with respect to this environmental remediation based on current available information. Subsequently, during fiscal 2000, with respect to such review, it was determined that additional costs amounting to approximately \$1.3 million would be incurred to remedy these environmental issues, and accordingly, this additional amount was accrued. The total accrued liability of approximately \$4.3 million is included in "Other non-current liabilities" in the Consolidated Balance Sheets.

Summary of Quarterly Results

(unaudited)

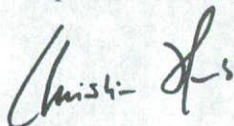
The following table summarizes the Company's results of operations by quarter for fiscal 2000 and 1999. The first quarter of each fiscal year contains sixteen weeks, while the other quarters each contain twelve weeks.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
(Dollars in thousands, except per share and store data)					
2000					
Sales	\$3,199,820	\$2,439,534	\$2,428,790	\$2,554,722	\$10,622,866
Gross margin	919,345	704,253	688,560	716,258	3,028,416
Depreciation and amortization	76,648	58,803	59,596	60,724	255,771
Income (loss) from operations	37,813	12,409	(2,184)	2,155	50,193
Interest expense	28,936	22,132	23,240	21,780	96,088
Net income (loss)	5,584	(5,374)	(14,513)	(10,765)	(25,068)
Per share data:					
Net income (loss) - basic and diluted	0.15	(0.14)	(0.38)	(0.28)	(0.65)
Cash dividends	0.10	0.10	0.10	—	0.30
Market price:					
High	24.06	17.88	11.50	11.85	
Low	17.41	12.06	9.13	6.25	
Number of stores at end of period	749	750	751	752	
Number of franchised stores served at end of period	63	67	68	68	
1999					
Sales	\$3,113,722	\$2,284,380	\$2,332,128	\$2,421,104	\$10,151,334
Gross margin	871,589	661,301	676,288	698,438	2,907,616
Depreciation and amortization	69,966	52,336	54,306	56,104	232,712
(Loss) income from operations	(9,710)	26,368	56,084	32,088	104,830
Interest expense	24,394	17,910	20,308	21,433	84,045
Net (loss) income	(19,546)	5,378	21,354	6,974	14,160
Per share data:					
Net (loss) income - basic and diluted	(0.51)	0.14	0.56	0.18	0.37
Cash dividends	0.10	0.10	0.10	0.10	0.40
Market price:					
High	34.25	37.38	36.94	28.88	
Low	29.13	32.06	25.44	23.38	
Number of stores at end of period	759	749	758	750	
Number of franchised stores served at end of period	57	62	62	65	


Management's Report on Financial Statements

The Management of The Great Atlantic & Pacific Tea Company, Inc. has prepared the consolidated financial statements and related financial data contained in this Annual Report. The financial statements were prepared in accordance with generally accepted accounting principles appropriate to the business and, by necessity and circumstance, include some amounts which were determined using Management's best judgments and estimates with appropriate consideration to materiality. Management is responsible for the integrity and objectivity of the financial statements and other financial data included in this report. To meet this responsibility, Management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that accounting records are reliable. Management supports a program of internal audits and internal accounting control reviews to provide reasonable assurance that the system is operating effectively.

The Board of Directors pursues its responsibility for reported financial information through its Audit Review Committee. The Audit Review Committee meets periodically and, when appropriate, separately with Management, internal auditors and the independent auditors, Deloitte & Touche LLP, to review each of their respective activities.



Christian W.E. Haub
Chairman of the Board,
President and Chief Executive Officer



Fred Corrado
Vice Chairman of the Board,
Chief Financial Officer

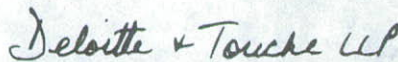
Independent Auditors' Report

To the Stockholders and Board of Directors of The Great Atlantic & Pacific Tea Company, Inc.:

We have audited the accompanying consolidated balance sheets of The Great Atlantic & Pacific Tea Company, Inc. and its subsidiary companies as of February 24, 2001 and February 26, 2000 and the related statements of consolidated operations, consolidated stockholders' equity and comprehensive (loss) income, and consolidated cash flows for each of the three fiscal years in the period ended February 24, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of The Great Atlantic & Pacific Tea Company, Inc. and its subsidiary companies at February 24, 2001 and February 26, 2000 and the results of their operations and their cash flows for each of the three fiscal years in the period ended February 24, 2001 in conformity with accounting principles generally accepted in the United States of America.



Deloitte & Touche LLP
Parsippany, New Jersey
April 5, 2001

Five Year Summary of Selected Financial Data

	Fiscal 2000 (52 Weeks)	Fiscal 1999 (52 Weeks)	Fiscal 1998 (52 Weeks)	Fiscal 1997 (53 Weeks)	Fiscal 1996 (52 Weeks)
(Dollars in thousands, except share and per share amounts, store data, and financial ratios)					
Operating Results					
Sales	\$10,622,866	\$10,151,334	\$10,179,358	\$10,262,243	\$10,089,014
Income (loss) from operations	50,193	104,830	(164,391)	155,259	169,303
Depreciation and amortization	(255,771)	(232,712)	(233,663)	(234,236)	(230,748)
Interest expense	(96,088)	(84,045)	(71,497)	(80,152)	(73,208)
(Loss) income before extraordinary item	(25,068)	14,160	(67,164)	63,586	73,032
Extraordinary loss on early extinguishment of debt	—	—	—	(544)	—
Net (loss) income	(25,068)	14,160	(67,164)	63,042	73,032
Per Share Data					
(Loss) income before extraordinary item — basic and diluted	(0.65)	0.37	(1.75)	1.66	1.91
Extraordinary loss on early extinguishment of debt — basic and diluted	—	—	—	(0.01)	—
Net (loss) income - basic and diluted	(0.65)	0.37	(1.75)	1.65	1.91
Cash dividends	0.30	0.40	0.40	0.40	0.20
Book value per share	20.79	22.07	21.87	24.22	23.27
Financial Position					
Current assets	1,201,854	1,222,883	1,243,110	1,217,227	1,231,379
Current liabilities	1,107,484	1,124,578	1,134,063	955,130	1,016,005
Working capital	94,370	98,305	109,047	262,097	215,374
Current ratio	1.09	1.09	1.10	1.27	1.21
Expenditures for property	415,842	479,572	438,345	267,623	296,878
Total assets	3,309,803	3,335,525	3,160,814	2,995,253	3,002,672
Current portion of long-term debt	6,195	2,382	4,956	16,824	18,290
Current portion of capital lease obligations	11,634	11,327	11,483	12,293	12,708
Long-term debt	915,321	865,675	728,390	695,292	701,609
Long-term portion of capital lease obligations	106,797	117,870	115,863	120,980	137,886
Total debt	1,039,947	997,254	860,692	845,389	870,493
Debt to total capitalization	57%	54%	51%	48%	49%

Five Year Summary of Selected Financial Data – Continued

	<u>Fiscal 2000</u> <u>(52 Weeks)</u>	<u>Fiscal 1999</u> <u>(52 Weeks)</u>	<u>Fiscal 1998</u> <u>(52 Weeks)</u>	<u>Fiscal 1997</u> <u>(53 Weeks)</u>	<u>Fiscal 1996</u> <u>(52 Weeks)</u>
(Dollars in thousands, except share and per share amounts, store data, and financial ratios)					
<i>Equity</i>					
Stockholders' equity	797,297	846,192	837,257	926,632	890,072
Weighted average shares outstanding	38,347,216	38,330,379	38,273,859	38,249,832	38,221,329
Number of registered stockholders	6,281	6,890	7,419	8,029	8,808
<i>Other</i>					
Number of employees	83,000	80,900	83,400	79,980	84,000
New store openings	47	54	46	40	30
Number of stores at year end	752	750	839	936	973
Total store area (square feet)	27,931,729	26,904,331	28,736,319	30,574,286	30,587,324
Number of franchised stores served at year end	68	65	55	52	49
Total franchised store area (square feet)	2,021,206	1,908,271	1,537,388	1,389,435	1,345,786

Executive Officers and Operating Management

Management Executive Committee

Christian W.E. Haub
Chairman of the Board,
President and Chief Executive Officer

Fred Corrado
Vice Chairman of the Board,
Chief Financial Officer

Elizabeth Culligan
Executive Vice President,
Chief Operating Officer

William Costantini
Senior Vice President,
General Counsel & Secretary

Mitchell P. Goldstein
Senior Vice President,
Finance & Treasurer

Nicholas Ioli, Jr.
Senior Vice President,
Chief Information Officer

Laurane Magliari
Senior Vice President,
People Resources and Services

Brian Pall
Senior Vice President,
Chief Development Officer

Donald J. Sommerville
Senior Vice President,
Chief Marketing Officer

Senior Operating Management

ATLANTIC REGION

Craig Sturken
President and Chief Executive Officer

MIDWEST REGION

Dennis Eidson
President and Chief Executive Officer

SOUTHERN REGION

Karen Stout
Group President

A&P CANADA

Brian Piwek
Vice Chairman, President and Chief Executive
Officer

Board Of Directors

Christian W.E. Haub (c)(d)
Chairman of the Board, President and
Chief Executive Officer

John D. Barline, Esq. (b)(c)(e)
Williams, Kastner & Gibbs LLP,
Tacoma, Washington

Rosemarie Baumeister (b)
Executive Vice President,
Tengelmann Warenhandels-gesellschaft,
Muelheim, Germany

Fred Corrado (c)(d)
Vice Chairman of the Board,
Chief Financial Officer

Bobbie Gaunt (a)(b)
Former President and CEO,
Ford Motor Company of Canada

Helga Haub (c)(d)

Dan Kourkouvelis (a)(c)(e)
Former President and CEO,
Quality Food Centers, Inc.

Edward Lewis (d)(c)(e)
Chairman and Chief Executive Officer
Essence Communications, Inc.

Richard L. Nolan (a)(c)(e)
William Barclay Harding Professor of
Management Technology at the Harvard Business
School and member of the Board of Directors for
Novell, Surebridge Technologies, and Zefer

Maureen B. Tart-Bezer (a)(d)
Executive Vice President & General Manager
American Express Company, U.S. Consumer
Charge Group

R.L. "Sam" Wetzel (a)(b)(d)
President and Chief
Executive Officer,
Wetzel International, Inc.

(a) Member of
Audit Review Committee
Richard L. Nolan, Chairman

(b) Member of
Compensation Committee
John D. Barline, Chairman

(c) Member of Executive Committee
Christian W.E. Haub, Chairman

(d) Member of Finance Committee
R.L. "Sam" Wetzel, Chairman

(e) Member of Governance Committee
Dan Kourkouvelis, Chairman

Stockholder Information

Executive Offices

Box 418
2 Paragon Drive
Montvale, NJ 07645
Telephone 201-573-9700

Independent Auditors

Deloitte & Touche LLP
Two Hilton Court
Parsippany, NJ 07054

Stockholder Inquiries and Publications

Stockholders, security analysts, members of the media and others interested in further information about the Company are invited to contact the Investor Relations Help Line at 201-571-4537.

Internet users can access information on A&P at:
www.aptea.com

Correspondence concerning stockholder address changes or other stock account matters should be directed to the Company's Transfer Agent & Registrar:

American Stock Transfer and Trust Company
40 Wall Street
New York, NY 10005
Telephone 800-937-5449

Form 10-K

Copies of Form 10-K filed with the Securities and Exchange Commission will be provided to stockholders upon written request to the Secretary at the Executive Offices in Montvale, New Jersey.

Annual Meeting

The Annual Meeting of Stockholders will be held at 9:00 a.m. (EDT) on Wednesday, July 18, 2001
Hampton Inn
4529 Highway One
Rehoboth Beach, Delaware.

Common Stock

Common stock of the Company is listed and traded on the New York Stock Exchange under the ticker symbol "GAP" and has unlisted trading privileges on the Boston, Midwest, Philadelphia, Cincinnati, and Pacific Stock Exchanges. The stock is generally reported in newspapers and periodical tables as "GtAtPc".

Financial Calendar

Estimated Date of Announcement of Quarterly Results:

1st quarter ended June 16, 2001 (16 weeks)
July 17, 2001

2nd quarter ended September 8, 2001 (12 weeks)
October 9, 2001

3rd quarter ended December 1, 2001 (12 weeks)
January 4, 2002

4th quarter ended February 23, 2002 (12 weeks)
April 4, 2002

